

AUDIT MEETING OF SEPTEMBER 15, 2011

Leslie Bingham-Escareño, Chair



Tom Gann, Member
Lowell Keig, Member

**AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

September 15, 2011
7:30 AM
TDHCA Headquarters
221 E. 11th Street, Room 116
Austin, TX

AGENDA

CALL TO ORDER, ROLL CALL Leslie Bingham Escaréno, Chair

CERTIFICATION OF QUORUM Leslie Bingham Escaréno, Chair

PUBLIC COMMENT

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit public comment at the beginning of the meeting and will also provide for public comment on each agenda item after the presentation made by the Department staff and motions made by the Committee.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

REPORT ITEMS Sandy Donoho, Dir Internal Audit

Item 1 Presentation, Discussion, and Possible Approval of the Audit Committee Minutes for May 5, 2011

Item 2 Presentation, Discussion and Possible Approval of the Fiscal Year 2012 Internal Audit Work Plan

Item 3 Presentation and Discussion of Recent Internal Audit Reports

Item 4 Presentation and Discussion of the Status of External Audits

Item 5 Presentation and Discussion of Recent External Audit Reports

Item 6 Presentation and Discussion of the Status of Prior Audit Issues

Item 7 Presentation and Discussion of the Status of the Fraud Hotline and Fraud Complaints

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, Texas Government Code, Chapter 551 and under Texas Government Code §2306.039

Leslie Bingham Escaréno, Chair

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Nidia Hiroms, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3934 and request the information.

Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Nidia Hiroms, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation, Discussion and Possible Approval of the Audit Committee Minutes for May 5, 2011.

RECOMMENDED ACTION

RESOLVED, that the audit committee minutes for May 5, 2011 are approved as presented.

**AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

May 5, 2011, 7:30 AM
TDHCA Headquarters
221 E. 11th Street, Room 116
Austin, TX

Summary of Minutes

CALL TO ORDER, ROLL CALL; CERTIFICATION OF QUORUM

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of May 5, 2011 was called to order by Chair, Leslie Bingham-Escareño at 7:37 a.m. It was held at the 221 E. 11th Street, Room 116, Austin, TX. Roll call certified a quorum was present.

Members Present:

Leslie Bingham-Escareño, Chair
Tom Gann, Member
Lowell Keig, Member

Also Present:

J. Paul Oxer

PUBLIC COMMENT

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit public comment at the beginning of the meeting and will also provide for public comment on each agenda item after the presentation made by the Department staff and motions made by the Committee.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

REPORT ITEMS

- AGENDA ITEM 1 PRESENTATION, DISCUSSION, AND POSSIBLE APPROVAL OF THE AUDIT COMMITTEE MINUTES FOR JANUARY 19, 2011**
Motion by Mr. Keig to approve minute summary; duly seconded by Mr. Gann; passed unanimously.
- AGENDA ITEM 2 PRESENTATION, DISCUSSION, AND POSSIBLE APPROVAL OF THE INTERNAL AUDIT WORK PLAN**
Motion by Mr. Keig to approve staff recommendation; duly seconded by Mr. Gann; passed unanimously.
- AGENDA ITEM 3 PRESENTATION AND DISCUSSION OF RECENT INTERNAL AUDIT REPORTS**
No action taken.
- AGENDA ITEM 4 PRESENTATION AND DISCUSSION OF THE STATUS OF EXTERNAL AUDITS**
No action taken.
- AGENDA ITEM 5 PRESENTATION AND DISCUSSION OF RECENT EXTERNAL AUDIT REPORTS**
No action taken.
- AGENDA ITEM 6 PRESENTATION AND DISCUSSION OF THE STATUS OF PRIOR AUDIT ISSUES**
No action taken.

EXECUTIVE SESSION

No Executive Session was held.

ADJOURN

Since there was no further business to come before the Committee, Leslie Bingham-Escareño adjourned the meeting of the Audit Committee at 8:27 a.m. on May 5, 2011.

Michele Atkins, Assistant Board Secretary

For a full transcript of this meeting, please visit the TDHCA website at www.tdhca.state.tx.us.

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation, Discussion and Possible Approval of the Fiscal Year 2012 Internal Audit Work Plan.

RECOMMENDED ACTION

WHEREAS, the Texas Internal Auditing Act and audit standards require the governing board to approve an annual audit work plan that is based on an agency-wide risk assessment as well as input from the governing board and executive management, and that outlines the internal audits planned for the upcoming fiscal year,

RESOLVED, the internal audit work plan for fiscal year 2012 is hereby approved as presented.

BACKGROUND

The annual internal audit work plan is required by the Texas Internal Auditing Act and by audit standards. The plan outlines the program areas that the internal audit division will audit during the 2012 fiscal year as well as outlining the other planned activities of the internal audit division.

**Department of Housing and Community Affairs
Internal Audit Division – DRAFT Fiscal Year 2012 Internal Audit Plan**

Program Area/Division	Audit	Hours	Comments
NSP	Neighborhood Stabilization Program (Follow-Up)	1000	Follow-Up of the FY2011 Internal Audit
Community Affairs	Homeless Housing and Services Program	1300	Scope will be Determined During Planning
HOME	HOME Multifamily	1000	Scope will be Determined During Planning
Multiple Divisions	Loan Process	1000	Scope will be Determined During Planning
Staff Services	Contracting for Services	120	Scope will be Determined During Planning
Human Resources	Human Resources	120	Scope will be Determined During Planning
Information Systems	TDHCA Website Management	120	Scope will be Determined During Planning
Community Affairs	Section 8	400	Scope will be Determined During Planning
Program Area/Division	Management Assistance/ Special Projects		Comments
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2013 Audit Plan	200	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Annual Review and Revision of Internal Audit Charter	40	Required by Audit Standards
Internal Audit	Quality Assurance Self-Assessment Review	80	Required by Audit Standards
Internal Audit	Review and Revise Internal Audit Policies and Procedures to Comply with New Auditing Standards	60	The GAO Will Be Releasing A Revised Version of the Government Auditing Standards
Internal Audit	Preparation for 2012 Peer Review	160	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Preparation and Submission of the Fiscal Year 2012 Annual Internal Audit Report	40	Required by the Texas Internal Auditing Act
Internal Audit	Coordinate with External Auditors	60	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	200	Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	200	Required by Audit Standards
All Divisions	Tracking, Follow-up and Disposal of Fraud Complaints	200	Internal Audit is Responsible for the Fraud Hotline and Reviewing Fraud Complaints

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation and Discussion of Recent Internal Audit Reports.

RECOMMENDED ACTION

None, information item only.

BACKGROUND

Internal Audit released the following reports since the last audit committee meeting:

An Internal Audit Overview of the Disaster Recovery Program (June 30, 2011) –

Because the disaster recovery program was re-assigned to the General Land Office, we were unable to complete our audit of the Program as required by our fiscal year 2011 internal audit plan. Consequently, we developed a report based on our gaining an understanding of the program during the audit planning phase. Generally, the Program has experienced a number of successes and addressed a number of challenges since 2006, when the Department was first charged with disaster recovery efforts related to housing after Hurricane Rita. The report contains self-reported information obtained from the Program staff and is provided for informational purposes only. Therefore, this project was not an audit and this document is not an audit report. This work was not conducted in accordance with Generally Accepted Government Auditing Standards or the International Standards for Professional Practice of Internal Auditing.

An Internal Audit Report on the Tax Credit Exchange Program (August 4, 2011) –

The Department is on track and has a plan to ensure that all of the Housing Tax Credit Exchange Program funds are disbursed and that each development is placed in service by the Treasury's deadline of December 31, 2011. However, in order to meet this deadline, the Department may have to modify some of the internal controls which help to ensure that Exchange funds are only used for costs which have actually been incurred and which are eligible program costs. These controls include cost certification, final inspection and withholding payment of developer fees. The Department has options if developments are not completed or placed in service by the deadlines set by Treasury. These options include: denying a developer the right to participate in other Department programs, recapture of expended funds, replacement of the developer, general partner, or any other person providing services to the developer, foreclosure, or any combination

of these remedies. Because the Department has these options available, the risk of a property not meeting the placed in service deadline is significantly reduced.

In addition:

- Two of the 38 draws we tested (5.3%) included un-incurred costs which totaled \$111,521. These included estimated bank payments and anticipated costs. In addition, we identified \$3,617 in expenses paid for donations, late fees, gifts, food, and party supplies. These expenses are not specifically prohibited under the contracts. The Department should ensure that all draws are paid only for incurred costs, and identify and implement restrictions on expense types for future programs to ensure that all program funds are spent on activities that clearly support the mission of the program.
- Twelve of 38 draws we tested (31.6%) included inadequate support for \$4.2 million in expenses. The Department should ensure that draws are only paid for costs that were already incurred.
- Of the 38 draws we tested, six draws (15.8%) were missing one or more of the required items on the draw checklist. The draw checklist does not always specify when exceptions to the supporting documents are allowed. The Department should clarify the draw checklists in order to more clearly communicate expectations and increase compliance with the draw requirements.
- The Department does not require properties to include specific information in third party inspection reports submitted with draw requests. As a result, there are broad differences between the third party inspection reports submitted. Because various stakeholders rely on the third party inspection reports to assess the progress and condition of the project, inconsistent or omitted information may limit the usefulness of the reports. The Department should communicate to the third party inspectors the preferred contents and components of an inspection report.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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June 30, 2011

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

To: The Governing Board and Audit Committee Members of the Texas Department of Housing and Community Affairs

RE: An Internal Audit Overview of the Disaster Recovery Program

Attached is a report that provides an overview of the Disaster Recovery Program (Program) while under the management of the Department of Housing and Community Affairs (Department.) Because the program was re-assigned to another State agency, we were unable to complete our audit of the Program as required by our fiscal year 2011 internal audit plan. Consequently, we developed the attached document based on gaining an understanding of the program during the audit planning phase.

Generally, the Program has experienced a number of successes and addressed a number of challenges since 2006, when the Department was first charged with disaster recovery efforts related to housing after Hurricane Rita. For example, the various hurricane recovery programs were implemented using a different model for each round of funding. Having different models, coupled with changing rules, the necessity of interpreting federal rules not previously applicable to hurricane programs, and the need to consequently develop a new program for each funding model while simultaneously managing these different programs created challenges for the Department.

In spite of the challenges, there have been many successes in the program. Program staff report that construction related to Hurricane Rita is essentially complete and over 3,000 homes were provided to low-income Texans. Construction is currently underway on homes for low-income Texans who were impacted by Hurricanes Dolly and Ike.

The attached document contains self-reported information obtained from the Program staff and is provided for informational purposes only. Therefore, this project was not an audit and this document is not an audit report. This work was not conducted in accordance with Generally Accepted Government Auditing Standards or the International Standards for Professional Practice of Internal Auditing. If you have any questions regarding this report, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra Q. Donoho".

Sandra Q. Donoho, CIA, CISA, CFE, CICA
Director of Internal Audit

Cc: Tim Irvine, Acting Executive Director

Executive Summary

The 2005 hurricane season was one of the most extreme in recorded history. The gulf coast was hit by several huge storms that caused tremendous destruction. In August, Hurricane Katrina made landfall in Louisiana and, in September, Hurricane Rita made landfall near Sabine Pass on the southeast Texas gulf coast.

On December 30, 2005, President Bush signed legislation providing \$11.5 billion in hurricane relief to five gulf coast states. This legislation allocated emergency funding through the Housing and Urban Development's (HUD) Community Development Block Grant Program (CDBG) to assist Louisiana, Mississippi, Florida, Alabama, and Texas in their long-term recovery efforts. In February 2006, HUD allocated \$74.5 million to Texas. In Texas, the Office of the Governor designated the Department of Housing and Community Affairs (Department) as the lead agency for disaster recovery. The Department is the state agency responsible for administering housing activities. The Texas Department of Rural Affairs (TDRA) administers the Hurricane Rita non-housing funds in an agreement with the Department.

In August 2006, Texas received a second round of funding of \$428.6 million for long-term recovery assistance. This funding is referred to as Rita Round 2 and is the second allocation of CDBG funding designated to help restore and rebuild in areas of the state most directly impacted by Hurricane Rita.

In 2008, within a 52-day time frame, Hurricanes Ike, Gustav, and Dolly impacted eastern Texas. Hurricane Ike, a category four hurricane, was the largest and most damaging. Hurricane Ike caused a great deal of damage to Galveston and other Texas coastal areas. This was the first time in Texas history that all Texas coastal counties were presidentially declared disaster areas at the same time.

In September 2008, Congress appropriated more than \$6 billion in supplemental funding for "necessary expenses related to disaster relief, long term recovery, and restoration of infrastructure, housing and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008." The state of Texas was allocated \$3.1 billion in

Project Description

This project was a review of the Disaster Recovery Program (program.) Because the program was re-assigned to another agency, we were unable to complete the audit of the program as required by the fiscal year 2011 internal audit work plan. Consequently, we developed this document based on gaining an understanding of the program during the audit planning phase.

This document contains self-reported information obtained from the Disaster Recovery Program and is provided for informational purposes only. Therefore, this project is not an audit and was not conducted in accordance with Generally Accepted Government Auditing Standards or the International Standards for Professional Practice of Internal Auditing. This document is not an audit report.

CDBG funds. The Office of the Governor designated TDRA the lead agency for Hurricane Ike and Dolly recovery. The Department administered the housing portion of the funding.

The various hurricane recovery programs were implemented using a different model for each round of funding (These models are discussed in the chapters that follow.) Changing models with each round of funding resulted in the necessity to develop a different program each time, further complicating the process. For example, Round 1 funding for Hurricane Rita required the Department to distribute the funding to the various Councils of Government (COGs) to manage (see chapter 1). Round 2 of Hurricane Rita involved a \$232,582,827 contract, which was awarded to Affiliated Computer Systems (ACS). ACS managed the process for determining homeowner eligibility, as well as hiring and overseeing contractors to construct or rehabilitate homes (see chapter 2).

Hurricane Ike and Dolly Round 1 and Round 2 use a different model. This model involves 18 subrecipients for Round 1 and four subrecipients for Round 2 who administer the CDBG disaster recovery funds. These subrecipients consist of COGs, counties, cities, and political subdivisions. Each subrecipient determines how the funds will be used within the CDBG requirements (see chapter 3).

Having different models, coupled with changing rules, the necessity of interpreting federal rules not previously applicable to hurricane programs, and the need to consequently develop a new program for each funding model while simultaneously managing these different programs has created challenges for the Department. In spite of the challenges, there have been many successes in the program. The program staff identified the challenges and successes of the various program models in chapter 4.

Various agencies such as HUD, HUD-OIG (Office of Inspector General), the State Auditor's Office (SAO), and the Department's Internal Audit Division have audited or monitored the Disaster Recovery Program. There were 15 total monitoring visits between March 5, 2007 and June 1, 2011 (See appendix E for a list of all available reports).

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Overview of Organization

The Disaster Recovery Division (Division) has 52 full-time equivalent employees (FTEs) and is led by the Disaster Recovery Liaison who reports to the Executive Director. The Division consists of five sections. The five sections include Emergency Housing Communications, Budget and Policy, Field Construction, Compliance and Quality Control, and the Disaster Recovery Programs. Collectively, these sections are responsible for disaster recovery efforts at the Department.

- Emergency Housing Communications is responsible for communicating the issues that arise with disaster recovery programs and producing key reports and presentations relating to those issues. They also handle requests for information and oversee all constituent complaints received by the Division. They are considered the central depository of disaster recovery information.
- Budget and Policy is responsible for setup approvals, draw requests, contract amendments, and the reporting required by HUD. Additionally, they are working to develop CDBG-compliant rules and guidance.
- Field Construction is responsible for overseeing and providing technical assistance to subrecipients for environmental reviews, accessibility, and code-related construction issues. This section also performs all environmental clearances and conducts quality and accessibility inspections of single-family homes and multi-family developments to ensure that the properties meet all state and federal requirements.
- Compliance and Quality Control is responsible for monitoring subrecipients. In addition, they are charged with providing quality control of internal processes.
- Disaster Recovery Programs is responsible for the administration of the program component of the Division. This includes providing technical assistance and consultation for subrecipients for both rental and non-rental activities and providing guidance on compliance with program rules and requirements.

Chapter 1

Rita Round 1

In August 2005, Hurricane Katrina made landfall in Louisiana and in September 2005, Hurricane Rita made landfall near Sabine Pass on the southeast Texas gulf coast. As a result of Hurricane Katrina, Texas experienced an influx of evacuees from Louisiana. It is estimated that Texas absorbed more than 400,000 evacuees shortly after the storm.

On December 30, 2005, President Bush signed legislation providing \$11.5 billion to five Gulf Coast states. On January 25, 2006, the U.S. Department of Housing and Urban Development (HUD) announced HUD's plan to allocate this disaster funding to areas impacted by Hurricanes Katrina, Rita, and Wilma. Congress appropriated this emergency funding through HUD's Community Block Grant Program (CDBG) in order to assist Louisiana, Mississippi, Florida, Alabama, and Texas in their long-term recovery efforts. In February 2006, HUD allocated \$74,523,000 to Texas.

In June 2006, Congress made a second appropriation resulting in \$428,671,849 for the state of Texas. The Texas Department of Housing and Community Affairs (the Department) was designated as the lead agency for these two disaster recovery allocations. The Department administers the State's housing activities. The Texas Department of Rural Affairs (TDRA) administers the non-housing funds in agreement with the Department. HUD mandated that a minimum of fifty-five percent (55%) of the funds be allocated for housing activities.

Rita Round 1 Activities and Allocation

The first round of funding (Rita Round 1) consisted of \$74.5 million and was administered by three Councils of Government (COGs): Houston-Galveston Area Council (HGAC), Southeast Texas Regional Planning Commission (SETRPC), and Deep East Texas Council of Governments (DETCOG). These COGs together serve 22 counties. COGs utilized their disaster recovery funding to assist the households with the greatest need. COG staff independently developed different methodologies and based their funding distribution on a variety of statistical information including Federal Emergency Management Agency (FEMA), Texas Department of Insurance, and census poverty data, as well as public input. The program operated on a reimbursement basis. The COGs were reimbursed by the Department when they submitted program expenses. Housing activities under Hurricane Rita Round 1 included single-family demolition, repair, rehabilitation, reconstruction, and new construction.

Councils of Governments

Regional Councils of Governments (COGs) are voluntary associations of local government formed under Texas law that address problems and planning needs across the boundaries of individual local governments or those that require regional attention. There are 24 designated planning regions and COGs operating across Texas.

Rita Round 1 Reporting

As of October 2010, all construction activities were complete for Hurricane Rita Round 1 funding. Approximately \$218,000 in flexible reserve funds was transferred to Rita Round 2 to assist the same population under the Texas Homeowner Assistance Program. These funds were added to the Maximization Fund used to provide housing with funds left over from the Hurricane Rita program. A total of \$1.22 million was transferred to the Maximization Fund to build additional housing.

Rita Round 1 Construction Activities (as of May 17, 2011)

There were 531 single-family homes rehabilitated or reconstructed. This program is now complete.

Rita Round 1 Financial Summary

Activity	Amount Contracted Per Activity	Cumulative Expenditures	Percentage Expended	Transfer to Maximization Fund
DETCOG	\$6,674,546	\$6,674,546	100%	\$0
Houston-Galveston Area Council	\$6,598,618.90	\$6,598,618.90	100%	\$58,477.10
SETRPC	\$26,472,723.41	\$26,472,723.41	100%	\$948,812.59
Admin Funds	\$1,406,920	\$1,406,920	100%	\$0
Flexible Reserve Funds	\$0	\$0	0%	\$218,087
Totals	\$40,944,909.54	\$40,944,909.54	100%	\$1,225,376.69

Source: Unaudited data provided by Program staff.

Table 1

Chapter 2

Rita Round 2

Texas received \$428.6 million in August 2006 as a second round of funding for long-term disaster recovery assistance. This second supplemental round of CDBG funding is referred to as Rita Round 2. It was allocated to help restore and rebuild in the areas of the State most directly impacted by Hurricane Rita. These funds also address the needs of Katrina evacuees in Houston and Harris County. This round of funding is currently administered by the Department and by TDRA, with a large portion of the funds distributed through a third-party project management firm, ACS State and Local Solutions. This round is almost complete and is expected to be fully expended by the end of June 2011.

Rita Round 2 Activities and Allocation

The action plan for the second round of CDBG funding was approved by HUD in April 2007. The housing funds are divided among:

- the Homeowner Assistance Program,
- the Sabine Pass Restoration Program,
- the Multi-family Rental Housing Stock Preservation Program,
- the Restoration of Critical Infrastructure Program, and
- the City of Houston and Harris County Public Service and Community Development Program.

The largest share of funding (\$212,358,304) was provided to the Homeowner Assistance Program for homeowners whose family income is up to 80% of the area median family income (AMFI). In addition, federal rules require that at least 10.6% of the disaster assistance funding is used for rental housing.

The funds of the second supplemental allocation will be used to:

- Provide assistance to homeowners of low to moderate income whose houses were damaged by Hurricane Rita,
- Restore and protect owner occupied housing stock in the community of Sabine Pass which was severely damaged by the storm,
- Repair, rehabilitate, and reconstruct affordable rental housing stock in the impacted areas,
- Restore critical infrastructure damaged by Hurricane Rita where no other funds are available, and
- Provide assistance in the city of Houston and Harris County for increased demands for public services, law enforcement and judicial services, community development and

housing activities in specific areas that experienced a dramatic population increase due to an influx of Katrina evacuees.

In December 2010, the Department initiated the Maximization Fund to move unutilized Rita Round 1 and Round 2 funds from other agencies and programs to the Homeowner Assistance Program in order to serve additional households. The Department expects to build an additional 49 homes in the spring of 2011 through the Maximization Fund.

Rita Round 2 Reporting

Rita Round 2 Construction Activities (as of May 17, 2011)

Homeowner Assistance Program (HAP)

As of May 17, 2011 Rita Round 2 CDBG Disaster Recovery funds have assisted 2,480 households:

- 2,479 homes rehabilitated or reconstructed
- 1 home currently under construction

Rita Round 2 Financial Summary

Activity	Amount Contracted per Activity	Cumulative Expenditures	Balance Remaining	% Expended
Homeowner Assistance Program	\$212,358,304	\$210,905,918	\$1,452,386	99.3%
Sabine Pass Restoration Program	\$10,964,278	\$10,716,692	\$247,586	97.7%
Rental Housing Stock Restoration Program	\$82,779,333	\$82,489,388	\$289,945	99.6%
City of Houston	\$41,663,498	\$36,065,566	\$5,597,932	86.6%
Harris County (Public Service Activities)	\$11,738,414	\$11,375,016	\$363,398	96.9%
Harris County (Cypress Wood Multi-family Activity)	\$5,574,826	\$802,122	\$4,772,704	14.4%
Restoration of Critical Infrastructure Program (TDRA)	\$43,300,000	\$36,680,208	\$6,619,792	84.7%
Administrative Funds	\$15,884,448	\$13,984,574	\$1,899,874	88.0%
Totals	\$424,263,101	\$403,019,484	\$21,243,617	95.0%

Source: Unaudited data provided by Program staff

Table 2

Chapter 3

Ike and Dolly Round 1 and Round 2

In 2008, within 52-days, Hurricanes Ike, Gustav, and Dolly impacted south and southeast Texas. Hurricane Ike, a category 4 hurricane, was the largest and most damaging and devastated Galveston and other Texas coastal areas. This was the first time in Texas history that all Texas coastal counties were simultaneously declared disaster areas.

In September 2008, Congress appropriated more than \$6 billion in supplemental funding for “necessary expenses related to disaster relief, long term recovery, and restoration of infrastructure, housing and economic revitalization in areas affected by hurricanes, floods, and other natural disasters occurring during 2008.” The state of Texas was allocated \$3.1 billion in CDBG funds for disaster recovery. HUD announced the first allocation of \$1,314,990,193 in November 2008 and the second allocation of \$1,743,001,247 in June 2009.

Governor Perry designated TDRA as the lead agency for Hurricane Ike recovery. Of the total allocation of \$3,057,991,440, no less than 10.6% must be used for affordable rental activities. The Department partnered with TDRA to develop the action plan and subsequent amendments, as well as to manage the housing activities. The combined Ike and Dolly Round 1 and Round 2 housing programs must appropriately and proportionately address the following housing needs of owners and renters of lower income households:

- homeowner repair, rehabilitation and replacement,
- rental repairs, rehabilitation and replacement including new construction to replace damaged or destroyed multi-family housing stock,
- down payment assistance,
- activities designed to relocate families outside of flood plains,
- activities that address slum and blighted areas designated as such by the local jurisdiction, and
- activities designed to address environmental hazards including local code compliance, storm mitigation activities, and elevation assistance.

Ike and Dolly Round 1 Activities and Allocation

HUD provided \$1,315,990,193 to Texas in CDBG funds. This was the first allocation of funding announced in November 2008. The Department partnered with TDRA for disaster recovery and was charged with administering the housing portion of the funding. Fifty percent (50%) of the funds had to be used to support activities benefiting low and moderate income persons and up to 50% of the funds may be used for activities of urgent need or the elimination of slums and blight. At least 10.6% of the funding amount must be used for affordable rental housing.

The state of Texas plan for disaster recovery prepared by TDRA was approved by HUD in March 2009. Awardees of CDBG Hurricane Ike and Dolly recovery funding primarily include city and county governments and councils of governments. Under Ike and Dolly Round 1, 18 subrecipients administer the CDBG disaster recovery funds. Housing programs offered by these subrecipients include programs to assist homeowners with damaged or destroyed homes, down payment assistance, repair or replacement assistance for rental housing and other activities designed to address disaster related needs. Storm hardening, demolition, and elevation of structures out of flood prone areas are also recovery-eligible activities.

In December 2009, the Department closed applications and awarded contracts to 18 subrecipients. The Department reestablished the application process used in Rita Round 1: households applied to the subrecipients for assistance and not directly to the Department. Housing programs offered by the subrecipients are currently oversubscribed: approximately 12,000 applications were accepted, even though the program is expected to be able to assist a maximum of 5,000 applicants.

Ike and Dolly Round 1 Reporting

The Department awarded \$621,448,377 in CDBG disaster recovery funding for housing activities in the hurricane impacted areas. This funding consists of \$562,613,464 awarded to 18 subrecipients for housing and \$59,926,832 for rental set-aside.

Construction Activities (as of May 17, 2011)

Rental Program

- Over \$59 million was awarded to 13 multifamily developments in the hurricane impacted areas.
- 1,857 rental units are expected to be rehabilitated or reconstructed by the Ike subrecipients; 76 rental units are anticipated in the Dolly area.

Subrecipient Program

- 17 of the 18 subrecipients have projects underway including assistance to 283 homebuyers and approval for repairs to over 724 homes.

Ike and Dolly Round 1 Financial Summary

Subrecipient Summary

Subrecipient Awards	Current Budget	Cumulative Expenditures	Balance Remaining	% Expended
City of Galveston	\$160,432,233	\$ 5,167,799.73	\$155,264,433.27	3.22%
Galveston County	\$99,503,498	\$10,524,415.79	\$ 88,979,082.21	10.58%
South East Texas Regional Planning Commission	\$95,000,000	\$ 2,122,179.38	\$ 92,877,820.62	2.23%
City of Houston	\$87,256,565	\$33,647,479.68	\$53,609,085.32	38.56%
Harris County	\$56,277,229	\$6,298,929.16	\$49,978,299.84	11.19%
Houston-Galveston Area Council	\$11,076,980	\$1,505,433.93	\$9,571,546.07	13.59%
Liberty County	\$8,878,923	\$549,101.70	\$8,329,821.30	6.18%
Montgomery County	\$6,909,237	\$354,927.55	\$6,554,309.45	5.14%
Deep East Texas Council of Governments	\$5,931,070	\$355,580.13	\$5,575,489.87	6.00%
Cameron County	\$3,093,750	\$84,005.40	\$3,009,744.60	2.72%
Hidalgo County	\$2,000,000	\$326,966.54	\$1,673,033.46	16.35%
City of Brownsville	\$1,635,318	\$0	\$1,635,318.00	0.00%
Fort Bend County	\$1,582,107	\$45,952.91	\$1,536,154.09	2.90%
Brazos Valley Affordable Housing Corporation	\$948,930	\$0	\$948,930.00	0.00%
Willacy County	\$541,287	\$0	\$541,287.00	0.00%
East Texas Council of Governments	\$415,117	\$21,331.00	\$393,786.00	5.14%
City of Mission	\$209,638	\$59,207.44	\$150,430.56	28.24%
Chambers County	\$20,921,582	\$603,974.58	\$20,317,607.42	2.89%
Totals	\$562,613,464.00	\$61,667,284.92	\$500,946,179.08	10.96%

Source: Unaudited data provided by Program staff

Table 3

Multifamily Summary

Multi-Family Awards	Current Budget	Cumulative Expenditures	Balance Remaining	% Expended
Orange Navy II	\$ 3,450,000	\$3,186,138	\$263,862	92.4%
Tidwell Estates	\$ 277,676	\$277,676	\$0	100.0%
Beacon Bay Townhomes	\$ 816,898	\$397,561	\$419,337	48.7%
2101 Church Street	\$ 5,000,000	\$0	\$5,000,000	0.0%
Fountains of Westchase	\$ 2,390,000	\$1,092,405	\$1,297,595	45.7%
Towers at Clear Lake	\$ 5,000,000	\$1,080,016	\$3,919,984	21.6%
Union Acres	\$ 3,003,389	\$0	\$3,003,389	0.0%
Champion Homes at Bay Walk	\$ 5,000,000	\$1,008,516	\$3,991,484	20.2%
Champion Homes at Marina Landing	\$ 10,000,000	\$0	\$10,000,000	0.0%
Lexington Square Apartments	\$ 1,425,868	\$0	\$1,425,868	0.0%
Colony of Humble	\$ 6,296,670	\$658,752	\$5,637,918	10.5%
Arthur Robinson Apartments	\$ 10,000,000	\$0	\$10,000,000	0.0%
Countryside Village Apartments	\$ 7,266,331	\$0	\$7,266,331	0.0%
Totals	\$ 59,926,832	\$7,701,064	\$52,225,768	12.9%
Source: Unaudited data provided by Program staff				

Table 4

Ike and Dolly Round 2 Activities and Allocation

In June 2009, a second allocation of \$1,743,001,247 was made to Texas. To incorporate rules governing the receipt and the use of the second allocation of funds, the first amendment to the state of Texas plan for disaster recovery was prepared by TDRA and approved by HUD in June 2010. As a condition of HUD's June 2010 approval, the state of Texas entered into a conciliation agreement with two housing advocacy groups to address fair housing concerns under Ike and Dolly Round 2 funding (see appendix C). As a requirement of the conciliation agreement, the Department was required to complete an updated Analysis of Impediments (AI) (see appendix D) before the majority of the funds could be released. The AI was submitted to HUD and HUD approved the AI in May 2011.

The state is working with its subrecipients under Ike and Dolly Round 1 to administer the second round of funding. Subrecipient jurisdictions will develop housing programs under Ike and Dolly

Round 2 that will have the same basic program elements as Ike and Dolly Round 1. For example, fifty-five percent (55%) of the funds must benefit households of low to moderate income (80% AMFI).

In addition to the funding awarded to subrecipients, the Department plans to administer several targeted programs, which exceed the established HUD minimum requirements.

Ike and Dolly Round 2 Activities Administered by the Department

Program	Summary	Funding
Affordable Rental Housing Recovery Program	Addresses restoration of single-family rental housing stock; restoration of projects with projects-based rental assistance including public housing rental stock; restoration of multi-family rental stock; one for one replacement of all family and elderly public housing units in the city of Galveston damaged or destroyed by Hurricane Ike; and construction, reconstruction, replacement, or rehabilitation of family and elderly public housing units damaged or destroyed by the hurricanes.	\$174,000,000
Texas Title Clearance and Legal Assistance Program	Program will help low-income Texans overcome title clearance and legal obstacles and realize the benefits of hurricane recovery programs and homeownership.	\$500,000
Texas Housing Reconstruction Demonstration Pilot Program	This statutorily required pilot program will identify and demonstrate alternative approaches to rebuild housing following a natural disaster.	\$6,000,000
Subsidized Housing Rebuilding Program	This program, to be administered by the appropriate COG, is for the sole-benefit of low- and moderate-income persons with unmet housing needs resulting from the hurricanes, with priority given to addressing issues identified with public housing and affordable rental housing damaged or destroyed by the hurricanes.	\$100,000,000
Impacted Area Buyout Program	The Department shall fund relocation and buyout assistance for low- and moderate-income victims of the hurricanes living in FEMA designated “high risk areas” and areas of high minority and poverty concentration as approved by the Department.	\$18,000,000
Moving-to-Opportunity Program	The Department will work with stakeholders to prepare a request to HUD for an allocation of additional Housing Choice Vouchers, or assistance in developing alternative tenant based rental assistance for eligible households.	Contingent on securing federal funds
Source: Unaudited data provided by Program staff		

Table 5

Ike and Dolly Round 2 Reporting

The Department awarded \$979,495,139 in CDBG disaster recovery funds for housing activities in the hurricane impacted areas. This funding includes \$174,299,853 for affordable rental housing.

Council of Governments	General Housing	Program Specific Activities: Affordable Rental Program	Total Housing
Houston-Galveston Area Council	\$521,261,621	\$126,095,018	\$647,356,639
Southeast Texas Regional Planning Commission	\$157,007,878	\$33,096,235	\$190,104,113
Lower Rio Grande Valley Development Council	\$106,925,787	\$15,108,600	\$122,034,387
Deep East Texas Council of Governments	\$20,000,000	\$0	\$20,000,000
Totals	\$805,195,286	\$174,299,853	\$979,495,139

Source: Unaudited data provided by Program staff

Table 6

Chapter 4

Successes and Challenges

The management and staff of the Disaster Recovery Program identified the following successes and challenges associated with developing and administering the multiple rounds of funding.

Successes

Organizational Structure

The Program was recently reorganized and is more structurally defined. This has resulted in a clearer separation of responsibilities. The Program now includes a section developed specifically for handling contract setups, draw requests, and amendments. The clearer separation of responsibilities has allowed staff to gain efficiencies.

Home Building Rate

The rate of home completion has increased over time.

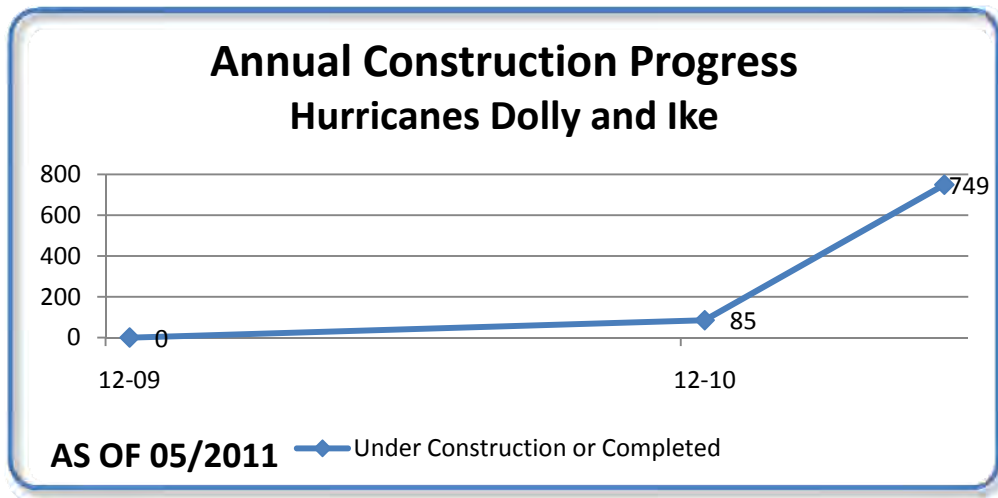


Chart 1

Minimal Disallowed Costs

HUD-OIG identified only \$300,000 in disallowed costs in the \$403,019,484 expended in Rita Round 2. There were 2,529 homes completed in Rita Round 2.

Enforcement of Program Requirements

The Department actively pursues allegations of misuse of resources and program violations. The Department partnered with HUD-OIG (Office of Inspector General) to investigate and prosecute allegations of fraud, waste, or abuse. All allegations are also referred to the State Auditor's Office as required by statute.

Enhance Communications

By establishing an Emergency Housing Communications section in the Disaster Recovery Division, the exchange of information with the subrecipients and other stakeholders was enhanced.

Challenges

Participant Eligibility

Determining household eligibility is a challenge because eligibility requires satisfaction of certain criteria including:

- the home was damaged or destroyed as a direct result of the storm,
- the home was the applicant's primary residence at the time of the storm,
- evidence that the applicant is current on property taxes,
- evidence of homeownership, and
- the applicant's household income does not exceed 80% of the Area Median Family Income (AMFI).

Duplication of Benefits

Preventing duplication of benefits is a challenge because the Department is responsible for ensuring that any CDBG funds disbursed are not used to meet needs that can be satisfied by other funding sources, yet the Department may not be aware of the applicant's other funding sources, such as insurance.

Ensuring Subrecipients Meet Benchmarks and Achieve Goals

The Department is responsible for ensuring that subrecipients meet their benchmarks and achieve their goals. However, the Department has limited control over the subrecipients' actual program performance.

Processing Environmental Clearances

Subrecipients may submit draw requests for environmental preparation costs for properties that may not be viable projects. This is because the number of applications received may exceed the number of homes the subrecipient is contracted to serve.

Disaster Recovery Models

Hurricanes Katrina, Rita, Ike, and Dolly led to the largest housing recovery effort in Texas. Prior to Hurricane Rita, a disaster recovery model did not exist in Texas. As a result, the state created three different disaster recovery models, which required the development of different program activities. In addition, the volume of applications received far exceeded the program's capacity.

Funding Lag

Although Hurricane Rita made landfall on September 25, 2005, funding was not available until approximately seven to eight months after the storm.

HUD Requirements

Several changes in HUD reporting requirements resulted in re-work on the part of the Program staff.

Appendix A

Objective, Scope and Methodology

Objective

Determine the current status or condition of the program operations.

Scope

August 29, 2005, the date Hurricane Katrina made landfall, to May 19, 2011.

Methodology

We conducted interviews with pertinent personnel.

We obtained and compiled information from various sources including:

- 2011 State of Texas Low Income Housing Plan and Annual Report
- Texas Department of Housing and Community Affairs Program Guide March 2009 and 2010
- Texas Department of Housing and Community Affairs website located at: <http://www.tdhca.state.tx.us/cdbg/index.htm>
- The Disaster Recovery Update Newsletters February thru May 2011
- Texas Department of Housing and Community Affairs' Quarterly Expenditure Report
- Conciliation Agreement effective May 25, 2010
- Texas Department of Housing and Community Affairs Community Development Block Grant Disaster Recovery Program Duplication of Benefits guide, November 2010
- Rebuilding Texas Report dated May 17, 2011 provided by the Disaster Recovery Division
- Analysis of Impediments to Fair Housing Phase I, Hurricane Impacted Communities, March 2011

Report Distribution

As required by the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), this report is distributed to:

- The Texas Department of Housing and Community Affairs' Governing Board
- The Governor's Office of Budget and Planning
- The Legislative Budget Board
- The State Auditor's Office
- The Sunset Advisory Commission

Texas Department of Housing and Community Affairs - Internal Audit Department
June 2011

Report # 11-1043

Project Information

This project was a review of the Disaster Recovery Program. The fiscal year 2011 internal audit work plan included an audit of the Disaster Recovery Program. During the planning phase of the audit, the Program was re-assigned to another agency. As a result, we were unable to complete the audit as scheduled. Instead, we compiled this document as a result of our process of gaining an understanding of the Program. The information contained in this document was self-reported by Program staff and has not been audited. This document is provided for informational purposes only. Therefore, this project was not conducted in accordance with Generally Accepted Government Auditing Standards or the International Standards for Professional Practice of Internal Auditing. This document is not an audit report.

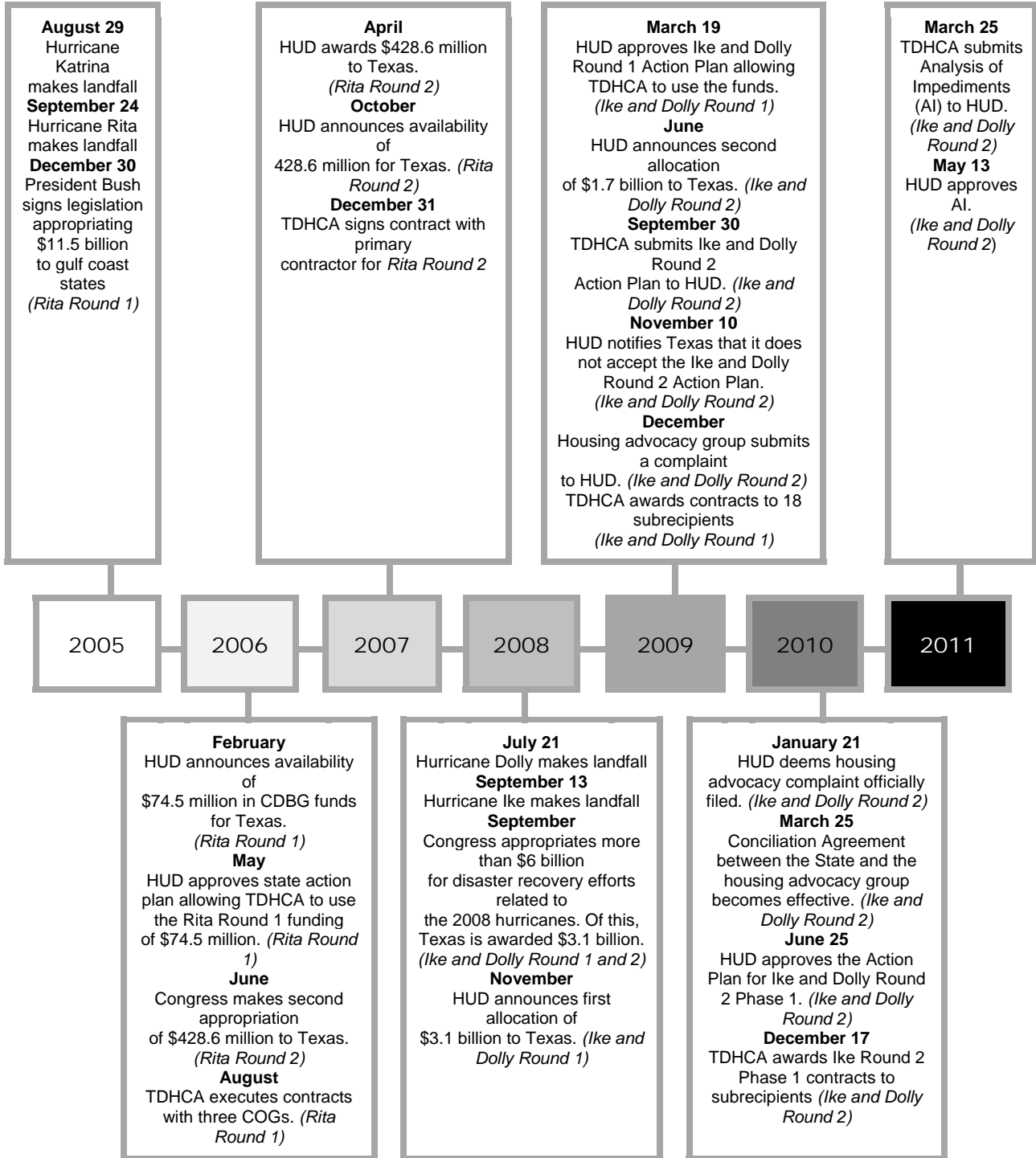
The following staff performed this work:

M. Betsy Schwing, CPA, CFE, Co-project Manager
Nicole Elizondo, CFE, CICA, Co-project Manager

Appreciation to Staff

We would like to extend our sincere appreciation to management and staff of the Disaster Recovery Program for their cooperation and assistance during the course of this work.

Appendix B - Timeline



Appendix C

Conciliation Agreement

On December 1, 2009, a housing advocacy group filed a complaint with HUD alleging the state violated the Fair Housing Act based on its' method of distribution and the fact that the state did not have the resources to certify that it was affirmatively furthering fair housing. The complaint was amended to allege discrimination under the CDBG statute at HUD's request. On February 7, 2010 another housing advocacy group requested to be added to the complaint. HUD accepted the complaint and notified Texas that it needed to respond and if the response was not adequate, it would conduct an investigation. As a result of the acceptance of the complaint, in order to expedite funds to Texans in need, Texas and the housing advocacy groups worked towards a conciliation agreement as allowed under the Fair Housing Act. The conciliation agreement is HUD-approved and constitutes a legally binding agreement between the state and the complainants.

The terms of the agreement include the following:

Analysis of Impediments to Fair Housing (AI)

- Draft an update of the AI in two phases, the first being the hurricane impacted areas
- Obtain public comment on the AI draft
- Appoint an advisory committee to review and provide guidance on the AI draft
- Obtain acceptance of the AI draft from HUD
- Review the program to ensure compliance with the HUD-approved AI
- Provide training to subrecipients on affirmatively furthering fair housing and civil rights compliance
- Establish procedures to collect and report relevant data

Allocation of Funds to Affirmatively Further Fair Housing

- The Department and TDRA shall prepare a revised amendment to the action plan and submit it to HUD. The revised amendment shall include the following:
 - Methods of Distribution
 - Low- to Moderate-Income Allocation
 - Housing Allocation
 - Recipient Performance
 - Expenditure Performance Requirements
- Establish and fund the following housing initiatives:
 - Affordable Rental Housing Program
 - Develop Statewide Housing Program Guidelines (to ensure even benefits are provided to persons in disaster areas)
 - One-for-One Replacement of Public Housing Units Damaged by the Storm

- Disaster Housing Demonstration Program (as required under State law)
- Title Clearance and Legal Assistance Program
- Rebuilding Subsidized Housing Program
- Impacted Area Buyout Program (now called the Homeowner Opportunity Program)
- Moving to Opportunity Program (funding contingent upon the awarding of Section 8 vouchers by HUD)
- Greater education regarding tax issues that limit participation to both subrecipients and applicants:
 - Prohibit denial of assistance to applicants who are elderly or disabled and defer property taxes as allowed by law, and
 - Prohibit denial of assistance to applicants who may be delinquent on their property taxes but have an agreed upon payment plan with the taxing authority
- Provide recipients with instructions concerning the standards used to establish property ownership as called for under Texas Government Code Section 2306.188
- Establish standards related to access to housing for persons with disabilities
- Establish eligibility standards

Reporting

Increase accountability and transparency in the Disaster Recovery Program by reporting as required.

With the approval of the Conciliation Agreement, the parties have committed themselves to affirmatively furthering fair housing for survivors of the hurricane in an expedient manner.

See the Department of Housing and Community Affairs' website for the full Conciliation Agreement at: <http://www.tdhca.state.tx.us/cdbg/ike-and-dolly/docs/ConciliationAgreement.pdf>

Appendix D

Analysis of Impediments

In 2010, HUD accepted a fair housing complaint filed by Texas housing advocates which raised issues about Texas' ability to certify that it considered affirmatively furthering fair housing with disaster recovery funds. Among the points raised in the complaint was that the State and several potential local subrecipients of the disaster funding had inadequate or outdated Analysis of Impediments (AI) with which to certify that the state was affirmatively furthering fair housing. Prior to its most recent submission in March of 2011, Texas' last AI was drafted in 2003 and approved in 2004. Generally, an AI should be reviewed every five years. The housing advocates' complaint was addressed by the Conciliation Agreement (See appendix C).

As a result of the conciliation agreement, the Department agreed to update the AI in two phases. Phase 1 is complete and was approved by HUD in May of 2011. Phase 1 focuses on areas of the state that are receiving the majority of the disaster recovery funding awarded to Texas by Congress. Phase 2 is in the formative stages of being drafted and will address the balance of the State along with Phase 1 areas.

The AI is intended to be a tool used by state agencies, and by recipients and subrecipients of CDBG disaster recovery funds to promote the State's goal that infrastructure, housing, and economic development projects affirmatively further fair housing within the impacted communities, as required by federal law.

The AI is a review of impediments to fair housing choice in the public and private sector. The AI involves:

- a comprehensive review of a state or entitlement jurisdiction's laws, regulations, and administrative policies, procedures, and practices;
- an assessment of how those laws affect the location, availability, and accessibility of housing;
- an assessment of conditions, both public and private, affecting fair housing choice for all protected classes;
- an assessment of the availability of affordable, accessible housing in a range of unit sizes,
- any actions, omissions, or decisions taken because of race, color, religion, sex, disability, familial status, or national origin which restrict housing choices or the availability of housing choices; and
- any actions, omissions, or decisions which have the effect of restricting housing choices or the availability of housing choices on the basis of race, color, religion, sex, disability, familial status, or national origin.

The purpose of the AI is to cover the full array of public and private policies, practices, and procedures affecting housing choice. The AI:

- serves as the substantive, logical basis for fair housing planning,

- provides essential and detailed information to policy makers, administrative staff, housing providers, lenders, and fair housing advocates, and
- assists in building public support for fair housing efforts both within a state or entitlement jurisdiction's boundaries and beyond.

A state must identify the impediment and use both public and private resources to work to eliminate these impediments to provide fair housing choice. The identified impediments should be addressed as a local jurisdiction (including the state) starts to develop funding models and plans how an activity will be conducted. The goal is to identify the impediments and then provide a mechanism that assists the entire community by providing fair housing choices.

It is important to note that the funds conditionally approved for Hurricanes Ike and Dolly Round 2 could not be expended until HUD approved the updated AI. Phase 1 of the updated AI was completed in March of 2011 and submitted to HUD for review and approval. HUD approved the Phase 1 AI on May 13, 2011.

Appendix E

Internal and External Monitoring Reports

As of June 1, 2011, various agencies such as HUD, HUD-OIG (Office of Inspector General), the State Auditor’s Office (SAO), and the Department’s Internal Audit Division have monitored or audited the Disaster Recovery Program. Since 2007, there have been 15 monitoring or auditing reports issued. See the chart below.

Date	Report Name	Entity
March 5, 2007	Internal Auditing Report on CDBG Disaster Hurricane Recovery Program – Project/Program Plan	Texas Department of Housing and Community Affairs (TDHCA)
October 2007	An Audit Report on Hurricane Recovery Funds Administered by the Department of Housing and Community Affairs and the Office of Rural Community Affairs	The Texas State Auditor’s Office (SAO)
August 1, 2008	April 28 – May 2, 2008 Management Review of the State of Texas’s Disaster Recovery Supplemental Appropriations, under the Community Development Block Grant Program (CDBG)	The US Department of Housing and Urban Development (HUD)
October 15, 2008	Disaster Voucher Program (DVP) Validation Review of the Texas Department of Housing and Community Affairs (TX901)	HUD
January 14, 2009	An Audit of the US Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), Supplemental I Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA)	HUD-OIG (Office of Inspector General)

Date	Report Name	Entity
August 4, 2009	January 12 – 16, 2009, Management Review of the State of Texas’s Disaster Recovery Community Development Block Grant Program (CDBG) funds for the impact of the 2005 hurricanes.	HUD
August 2009	A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of Housing and Community Affairs and the Office of Rural Community Affairs	SAO
September 30, 2009	An Audit of the US Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), Supplemental I and II Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA)	HUD-OIG
March 12, 2010	July 27 – 30 2009, Management Review of the State of Texas’s Disaster Recovery Community Development Block Grant (CDBG) funds for the impact of the 2005 hurricanes.	HUD
July 20, 2010	An Audit of the US Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), Supplemental II Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA)	HUD-OIG
August 31, 2010	An Internal Audit of Construction Quality in the Disaster Recovery Division	TDHCA

Date	Report Name	Entity
January 26, 2011	An Audit of the US Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), Supplemental II Disaster Recovery program funds administered by the Texas Department of Housing and Community Affairs (TDHCA)	HUD-OIG
March 31, 2011	October 18 – 22, 2010, Management Review of the State of Texas’s Disaster Recovery Community Development Block Grant (CDBG) funds for the Impact of the 2005 and 2008 hurricanes.	HUD
May 19, 2011	January 10 – 14, 2011, Management Review of the State of Texas’s Disaster Recovery Community Development Block Grant (CDBG) funds for the Impact of the 2005 and 2008 hurricanes.	HUD
June 1, 2011	April 4 – 8, 2011, Management Review of the State of Texas’s Disaster Recovery Community Development Block Grant (CDBG) funds for the Impact of the 2005 and 2008 hurricanes.	HUD

Source: Internal Audit Division’s records.

Table 7



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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J. Paul Oxer

August 4, 2011

Writer's direct phone # (512) 475-3813
Email: sandy.donoho@tdhca.state.tx.us

To: The Governing Board and Audit Committee Members of the Texas Department of Housing and Community Affairs

RE: An Internal Audit Report on the Tax Credit Exchange Program

The Texas Department of Housing and Community Affairs (Department) is on track and has a contingency plan to ensure that all of the Housing Tax Credit Exchange Program (Exchange) funds are disbursed and that each development is placed in service by the U.S Department of the Treasury's (Treasury) deadline of December 31, 2011. However, in order to meet this deadline, the Department may have to modify some of the internal controls which help to ensure that Exchange funds are only used for costs which have actually been incurred and which are eligible program costs. These controls include cost certification, final inspection and withholding payment of developer fees. The Department's options if developments are not completed or placed in service by the deadlines set by Treasury include: denying a developer the right to participate in other Department programs, recapture of expended funds, replacement of the developer, general partner, or any other person providing services to the developer, foreclosure, or any combination of these remedies. Because the Department has these options available, the risk of a property not meeting the placed in service deadline is significantly reduced.

The contracts between the Department and the developers limit reimbursement to incurred costs. We reviewed a systematic and judgmental sample of 38 Exchange draws (which are used to process payments) and found that twelve of these 38 draws (31.6%) included inadequate support for \$4.2 million in expenses. The Department should ensure that draws are only paid for costs that were already incurred. Of the 38 draws we tested, six draws (15.8%) were missing one or more of the required items on the draw checklist, which is used to ensure that the required documentation is provided. The draw checklist does not always specify when exceptions to the supporting documents are allowed. These inconsistencies increase the risk of missing support documents. By clarifying the draw checklists, the Department can more clearly communicate expectations and increase compliance with the draw requirements.

During construction, Exchange developers submit third party inspection reports and progress photos to support their draw requests. The Department does not require properties to include specific information in third party inspection reports. As a result, there are broad differences between the third party inspection reports submitted. Because various stakeholders rely on the third party inspection reports to assess the progress and condition of the project, inconsistent or omitted information may limit the usefulness of the reports. By requesting the preferred contents and components of an inspection

report, the Department will have the information necessary to make the best possible decisions regarding the developments or the Exchange program.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Donoho". The signature is fluid and cursive, with a large initial "S" and a distinct "Donoho" ending.

Sandra Q. Donoho, MPA, CISA, CIA, CICA, CFE
Director of Internal Audit

[sqd]

cc: Tim Irvine, Acting Executive Director
Tom Gouris, Deputy Executive Director for Housing Programs
Robbye Meyer, Director of Multifamily Finance Production
Teresa Shell, Exchange Administrator

Executive Summary

The Texas Department of Housing and Community Affairs (Department) is on track and has a contingency plan in order to ensure that all of the Housing Tax Credit Exchange Program (Exchange) funds are disbursed and that each development is placed in service by the deadline of December 31, 2011 as required by the U.S Department of the Treasury (Treasury). However, in order to do so, the Department may have to modify some of the internal controls which were set up to ensure that Exchange funds are only paid out for costs which have actually been incurred and which are eligible program costs. These controls include cost certification, final inspection and withholding payment of developer fees.

The Texas Administrative Code requires a final inspection and a cost certification. The final inspection and the submission and acceptance of a cost certification are also required by the written agreement between the Department and the developer. The written agreement states that the Department can modify disbursement procedures to comply with program requirements. However, disbursing all funds to the developer before the project is completed removes the incentive for the developer to complete construction in order to receive final payment.

The Housing Tax Credit Exchange Program

The Exchange program was developed as part of the American Recovery and Reinvestment Act of 2009 (ARRA). Under the Exchange program, the U.S. Treasury was allowed to allocate money to states in order to exchange a portion of the annual allocation of tax credits for grant funds.

These funds must be used to finance the construction, acquisition, or rehabilitation of qualified low-income housing. The Exchange awards are non-repayable cash assistance and are subject to the same limitations as an allocation of housing tax credit dollars under the Internal Revenue Code.

A development must be placed in service before the cost certification package can be submitted to the Department. However, the Department does have options if developments are not completed or placed in service by the deadlines set by Treasury. These options include: denying a developer the right to participate in other Department programs, recapture of expended funds, replacement of the developer, general partner, or any other person providing services to the developer, foreclosure, or any combination of these remedies. Because the Department has these options available, the risk of a property not meeting the placed in service deadline is significantly reduced.

The Exchange program uses a draw process for payment. Developers submit documents to the Department that support expenditures for costs related to their Exchange developments. The contracts between the Department and the developers limit reimbursement to incurred costs. We reviewed a systematic and judgmental sample of 38 Exchange draws and found that twelve of these 38 draws (31.6%) included inadequate support for \$4.2 million in expenses. The Department should ensure that draws are only paid for costs that were already incurred.

The Department uses a draw request checklist for Exchange activities to ensure that all of the required documents are included. Of the 38 draws we tested, six draws (15.8%) were missing one or more of the required items on the checklist. The draw checklist does not

always specify when exceptions are allowed in providing supporting documents for draws. These inconsistencies increase the risk of missing support documents. By clarifying the draw checklists, the Department can more clearly communicate expectations and increase compliance with the draw requirements.

During construction, Exchange developers submit third party inspection reports and progress photos to support their draw requests. These reports indicate the status of a construction project at a point in time. The Department does not require properties to include specific information in third party inspection reports. As a result, there are broad differences between the third party inspection reports submitted by the different properties. Because various stakeholders rely on the third party inspection reports to assess the progress and condition of the project, inconsistent or omitted information may limit the usefulness of the reports. By requesting the preferred contents and components of an inspection report (such as percentage of completion, status, adherence to a predetermined construction schedule, construction quality, and photographs), the Department will have the information necessary to make the best possible decisions regarding the developments or the Exchange program.

Summary of Management's Response

Management generally agrees with the findings of this audit and is working to implement the recommendations.

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Detailed Results

Chapter 1

The Department Can Meet the Deadline to Disburse all Exchange Funds but Internal Controls May Be Modified

The Department is on track and has a contingency plan to ensure that all of the Housing Tax Credit Exchange Program (Exchange) funds are disbursed and that each development is placed in service by the deadline of December 31, 2011 as required by the U.S Department of the Treasury (Treasury).

However, in order to do so, the Department may have to modify some of the internal controls which were set up to ensure that Exchange funds are only disbursed for costs which have actually been incurred and which are eligible program costs. These controls include cost certification, final inspection and withholding payment of developer fees.

The Texas Administrative Code requires a final inspection and a cost certification. The submission and acceptance of a cost certification is also required by the written agreement between the Department and the developer. The written agreement states that the Department can modify disbursement procedures to comply with program requirements. However, disbursing all funds to the developer before the project is completed removes the incentive for the developer to complete construction in order to receive final payment.

A development must be placed in service before the cost certification can be submitted and accepted. However, the Department does have recourse for developments that are not completed or placed in service by the deadlines set by Treasury. These options include: denying a developer the right to participate in other Department programs, recapture of expended funds, replacement of the developer, general partner, or any other person providing services to the developer, foreclosure, or any combination of these remedies. Because the Department has these options available, the risk of a property not meeting the placed in service deadline is significantly reduced.

The cost certification process could delay the final disbursement of funds. As of May 25, 2011, cost certifications were received for eight of the 89 properties (9.0%) in the

Deadline for the Housing Tax Credit Exchange Program
The Exchange program is mandated by section 1602 of the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA authorizes the Treasury to issue grants to state housing agencies in lieu of low-income housing tax credits. These funds must be used to finance the construction, acquisition, or rehabilitation of qualified low-income buildings.
The Department cannot advance Exchange funds to the development owners for prospective or future needs; all funds must be paid for costs that were incurred as of the date of the draw request. The terms and conditions of the Department's Exchange grant state that "any funds not disbursed to subawardees by December 31, 2011 must be returned to the Treasury by January 1, 2012." The Treasury's disbursement deadline applies to all Exchange funds, including any funds retained to pay developer fees.
Exchange developments which received their Exchange award during the 2007 and 2008 award cycle are required to be placed in service by March 31, 2011, unless an extension has been granted, but such extension would not exceed the Treasury's December 31, 2011 deadline.
Exchange developments which received their award during the 2009 award cycle must be placed in service by December 31, 2011.

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Exchange portfolio. None of these cost certifications have received final approval. The Department can withhold 25% of the developer's fee until the cost certification process is complete or until the Department determines that sufficient sources of funds are otherwise available to pay the developer fee. In order to complete the cost certification process, a final inspection is required to ensure that the development is in compliance.

Of the 89 Exchange contracts with the Department, 77 contracts (86.5%) have the developer fee budgeted with Exchange award funds. Therefore, these developments must complete the Department's cost certification process before the remaining Exchange funds are disbursed for the developer fee or be able to provide documentation that the construction lender or any other lender in the transaction is holding the funds. The remaining 12 contracts do not have their developer fee budgeted using Exchange funds so these funds can be paid out prior to the completion of the cost certification.

The development is considered placed in service once the appropriate local authority and the registered architect certifies that at least one unit in the building is ready and available for occupancy.

Staffing limitations may delay the cost certification process. During the cost certification process, the developer provides a full accounting of program funds expended for development costs. This includes all exhibits required in the Exchange Program Cost Certification Procedures Manual, and may include additional requests from the Department for copies of invoices, receipts, and statements for materials and labor, as well as closing statements for permanent and interim financing. These documents are reviewed by staff to ensure that all costs are supported.

The Department's approval of a cost certification can take up to six months, though the cost certification process can actually be performed in as little as two to three months. The Department currently has one staff member dedicated to cost certifications. An additional staff member in the Asset Management Section has been assigned to perform cost certifications for the Exchange program, in addition to performing their asset management duties. Other staff members in the Department's Real Estate Analysis Division could potentially be assigned to work on Exchange cost certifications after the Housing Tax Credit Program award process is complete in July 2011.

The final inspection process may impact the completion of the cost certification process. A final inspection is required before the cost certification process is complete. The scheduling of the final construction inspection can take up to three weeks from the date the inspection request is received from the developer, and it can take an additional three months for the Department to complete the inspection. The Department's Asset Management Section tracks the percentage of construction completion and reviews the third party inspection reports included with each Exchange draw request. Once a property reaches or exceeds the point where 90% of the construction is complete, the Asset Manager schedules and coordinates final construction inspections with the Department's Physical Inspections Section.

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As of May 9, 2011, the Asset Management staff identified 36 of the 89 Exchange properties which were at least 90% complete; 18 of these properties were 100% complete. There were 22 properties that were less than 50% complete, including four properties that had not yet begun construction.

As of May 25, 2011, the Department's Contract Management Tracking System indicated that:

- three of the 36 completed properties cleared final inspection,
- 21 properties were still in the inspection process, and
- 12 properties had not yet been assigned to an inspector for scheduling.

All other Exchange properties were not ready to enter the final inspection process because they had not reached 90% completion.

There are six properties that may not be able to complete construction by the deadline. We analyzed the expected construction completion dates tracked by the Asset Management Sections for all 89 Exchange properties to determine which projects present the greatest risk of not meeting the disbursement deadline. Only six properties are reported as less than 50% complete and are scheduled to complete construction in either October or December 2011. This includes three new construction projects that are expected to complete construction on December 1, 2011.

These six properties present the greatest risk of not meeting the disbursement deadline because their expected completion dates allow less than three months to complete the final inspection and cost certification requirements necessary to disburse their final Exchange award amounts under the current developer agreement.

Contingency plans have been made to ensure that all Exchange projects are completed by the Treasury deadlines. The Exchange program staff are working to identify struggling developments early so that the Department can make the necessary changes to the parties involved in order to ensure the development is finished on time. The Department could change the developer or contractor in these projects to an entity capable of placing the development in service ahead of schedule, allowing more time to complete cost certification.

In addition, the Department and its governing board have the authority to lift the final inspection and cost certification requirements in order to meet the disbursement deadline. However, bypassing the final inspection and cost certification processes to disburse the funds by the deadline would eliminate the internal controls, which verify that the developments are built to the standards expected, that funds are used for eligible costs and that these costs were actually incurred.

Recommendation

The Department and the Board should determine the actions necessary to ensure that the Exchange developments are completed on time and that the Treasury deadlines for disbursing funds and placing these developments in service are met.

Management's Response

There are currently three Asset Managers, the Manager of Asset Management and the Exchange Program Administrator focused on ensuring the successful completion of each of the Exchange projects. Additionally, there are seven Real Estate Analysis Division staff members available to assist with re-evaluation of deals as necessary, for a total of twelve staff to ensure the successful completion of the Exchange Program. A "Watch List" has been developed and aggressive asset management has been implemented for those transactions that have been identified as at-risk and necessitate additional management. Weekly and bi-weekly conference calls and on-site visits are held with development teams, including the lenders and general contractors. Additionally, a report to the Asset Compliance Committee is given at each meeting.

Management is aware of the very limited amount of time for some of the developments to complete construction, the final inspection, the cost certification and submit all final draw documentation. However, modifications to the program have now ensured that all funds are distributed by the December 31, 2011 deadline while concurrently lessening the risk that the transactions would not be completed appropriately. Many lenders traditionally hold back developer fees until such time that certain development benchmarks are met. By holding back the developer fees, this ensures that the developer is incentivized to complete the project on time and meet the various benchmark requirements. This holds true for the Exchange transactions as well. Staff will work with each development to adjust budget line item sources as needed to ensure that 100% of the committed funds can be distributed by the Federal deadline. The existing subaward agreement provides enough latitude to make these adjustments as necessary. The developments that are trailing behind in development will be actively managed by our asset management section and all have projected completion dates at least 30 days prior to the federal deadline.

On the six transactions that may have difficulty meeting the Exchange Subaward deadlines, management is working with the lenders to ensure that the 25% developer fee holdback of funds is held with the lender until such time that the cost certification has been submitted and accepted by the Department. This agreement has been documented in a letterform from the lenders outlining the specific Exchange benchmark requirements. Such requirements include the submission and acceptance of the cost certification. Once a cost certification has been submitted to the Department, a "Cost Certification Conditional Acceptance" letter is issued to the developer. The Department currently has four staff members working on Exchange cost certifications.

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As of August 2, 2011, seventeen cost certifications have been submitted and accepted by the Department. Additionally, as of August 1, 2011, fifty-eight deals are between 90-100% complete, twenty-seven are between 50-89% complete and four are between 35-49% completed. All transactions are under construction and scheduled to complete by the US Treasury Department's Placed in Service deadline of December 31, 2011.

All Asset Management staff members are working with the Physical Inspections group to coordinate and facilitate the final property inspections.

Additional guidance on the Exchange Program deadlines and expectations was provided to the development community as a whole via the Exchange website.

Chapter 2

Although the Department Generally Processes Draws in Compliance with Program Requirements, Some Improvements are Needed

The Exchange program, like many of the Department's construction programs, uses a draw process for payment. Developers submit documents to the Department that support expenditures for costs related to their Exchange developments. The contracts between the Department and the developers limit reimbursement to incurred costs. We reviewed a systemic and judgmental sample of 38 Exchange draws and found two (5.3%) that included a total of \$111,521 in estimated interest and anticipated costs. Twelve of these 38 draws (31.6%) included inadequate support for \$4.2 million in expenses. The Department should ensure that draws are only paid for costs that were already incurred and that are adequately supported.

The Department uses a draw request checklist for Exchange activities to ensure that all of the required documents are included. The checklist requires sub-awardees to upload executed copies of their Exchange agreements into the Housing Contract System on their first draw; these agreements are used as support for all subsequent draws. In addition, the Exchange draw request checklist requires them to upload certain documents into the Housing Contract System as support for each draw request. Of the 38 draws we tested, six draws (15.8%) were missing one or more of the required items.

The draw checklist used by the Department does not always specify when exceptions are allowed in providing supporting documents for draws. These inconsistencies increase the risk of missing support documents. By clarifying the draw checklists, the Department can more clearly communicate expectations and increase compliance with the draw requirements.

Chapter 2-A

The Department Should Ensure that All Costs are Incurred Prior to Payment

The Department's contracts with developers limit Exchange draws to incurred costs only. Funds cannot be drawn for estimated or anticipated needs. We systematically and judgmentally selected 38 approved draws to determine their compliance with this restriction. Two of the 38 draws we tested (5.3%) included un-incurred costs which totaled \$111,521.

- A property submitted a letter estimating total bank payments of \$105,145 due between March 29, 2011 and February 29, 2012. The Department accepted the support and paid the estimated interest.
- A property submitted a management company invoice that included \$6,376 in anticipated costs. The Department accepted the support and paid these anticipated costs.

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By funding estimated or anticipated expenses, the Department loses the assurance that all Exchange funds are used to cover incurred costs that meet the requirements of the contracts.

In addition, during our testing, we identified \$3,617 in expenses paid for donations, late fees, gifts, food, and party supplies. While these expenses are not specifically prohibited under the contracts, they do not appear to be in line with the overall directive of the program which is to finance the construction, acquisition, and rehabilitation of qualified low-income housing projects.

Recommendations

The Department should:

- ensure that all draws are paid only for costs that have already been incurred, and
- identify and implement restrictions on expense types for future programs to ensure that all program funds are spent on activities that clearly support the mission of the program.

Management's Response

Management acknowledges the two items identified as unincurred. Management has required the developer to pre-pay the estimated interest expense of \$105,104 and provide proof of such payment. Management determined that the invoice for management services of \$6,376 was a justifiable expense given that the fees were for a defined service and scope of work. Given the nature of the specific development, Management would agree with the billing of services in advance as it is a common practice for assistance with troubled deals, difficult transactions or in transactions with new or inexperienced developers.

Items such as late fees, small token gifts, food and party supplies (for Ground Breaking and Grand Opening Events) are not prohibited by the Exchange program or the Tax Credit program; management looks for the reasonableness of the expense to ensure the items are justifiable development related expenses.

Clarification and additional guidance has been provided to staff and implemented. Such guidance is communicated to the developers as needed to ensure all items within a draw request are for items that have been incurred or expended.

Additional clarification and guidance on acceptable expense items will be provided to the development community via the Exchange website by August 31, 2011.

The Department Should Ensure that Exchange Draws Are Adequately Supported

The Treasury requires the Department to maintain program, financial, and accounting records sufficient to demonstrate that Exchange funds are used in accordance with program requirements. We tested a sample of 38 approved draws totaling \$43,115,053 and identified 12 draws (31.6% of the 38 draws tested) that included inadequate support for all or a portion of the drawn expenses. Inadequately supported amounts within each of these draws totaled \$4,240,288 (9.8% of the total amount tested). The issues identified include:

- no description of expense type,
- no support to show that the expense related to the Exchange property,
- no explanation for the allocation of expenses between the Exchange property and other projects,
- no indication that the costs were incurred,
- e-mail provided in place of itemized invoices,
- no architect's certification,
- incorrect property name or address, and
- disagreement between the supported and the paid amounts.

The Department has not outlined the requirements for the documentation submitted to support draw requests. As a result, Exchange properties are submitting, and the Department is approving, draw requests lacking key information. Supporting draw documentation maintained by the Department may not provide sufficient assurance that grant funds were disbursed in accordance with the program requirements.

Recommendations

The Department should:

- ensure that all draws are adequately supported,
- clarify the documents required to support draw requests, and provide this information to Exchange developers and to Department staff responsible for reviewing and approving draws.

Management's Response

Management acknowledges that there were some instances of inadequate documentation or documentation that could have been clearer.

Clarification and additional guidance has been provided to staff and implemented. Such guidance has been communicated to the developers as needed to ensure all back up documentation is consistent and clear to anyone reviewing the draws.

Additional guidance will be provided to the development community as a whole via the Exchange website by August 31, 2011.

Chapter 2-C

The Department Should Ensure Compliance with the Exchange Draw Checklist

The Department's draw request checklist for Exchange activities requires sub-awardees to upload executed copies of their Exchange contracts into the Housing Contract System on their first draw; these documents are then used as support for all subsequent draws.

They include:

- the sub-award agreement,
- land use restriction agreement (LURA),
- recapture mortgage,
- subordination agreement, and
- disbursement agreement.

We tested 38 approved draws and found eight agreements (4.2% of the agreements tested) were either missing entirely from the system or were not fully executed. When we discussed these missing items with management, they immediately uploaded the absent executed agreements into the Housing Contract System. Therefore, we have assurance that these documents existed, but were not saved to the Housing Contract System as internally required. The Housing Contract System is the system of record for the Exchange program and supporting documents should be maintained in the system in order to document the status of the program.

In addition, the Exchange draw request checklist requires development owners to upload certain documents into the Housing Contract System as support for each draw request:

- signed draw checklist,
- notarized American Institute of Architects (AIA) certification for hard costs,
- workbook,
- list of contractors/vendors,
- itemized invoices for soft costs,
- lien waiver affidavit or down date endorsement,
- progress photos, and
- construction lender inspection report.

We tested 38 approved draws to determine whether all of the required support was provided for each draw. We found that six draws (15.8%) were missing one or more of the required items. Specifically, we noted the following omissions:

- one missing AIA certification,
- one missing workbook,
- one missing contractor list,
- one missing invoice,
- two missing lien waiver affidavits or down date endorsements,

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- four missing progress photos, and
- four missing inspection reports.

One of the four draws missing progress photos and an inspection report was a first draw with \$370,250 in site work expenses. Management explained that it did not pursue this support because it was a first draw and there is likely little construction completed yet. However, the draw checklist does not note this exclusion and given the nature of the draw request, an inspection report could have provided useful information.

In addition to the support required for all draw requests, the Department's Exchange draw checklist requires developments to submit specific documents for final draws:

- a certificate of occupancy,
- a certificate of substantial completion,
- a final lien waiver affidavit, and
- a lien waiver affidavit or down date endorsement from all subcontractors/vendors.

We tested the five final draws in our sample to ensure that all of the required support was provided. We noted the following omissions:

- two missing certificates of occupancy,
- two missing certificates of substantial completion,
- two missing final lien waiver affidavits,
- three missing subcontractor lien waiver affidavits or down date endorsements.

In addition to the draw checklist, Exchange subawardees must submit an Excel workbook with each draw detailing the expenses associated with all past and present draw requests. The Excel workbook includes a tab with a list of items to be submitted along with each draw. The items listed in the workbook are not consistent with those listed in the draw request checklist for Exchange activities. For example, the final workbook does not require progress photos or inspection reports for first draws while the checklist does. Such inconsistencies create opportunities for confusion and increase the risk of missing support documents. By adding exclusionary statements to indicate, for example, that inspection reports are not necessary for draws consisting of only soft costs, the Department will more clearly communicate and facilitate compliance with internal requirements.

Recommendations

The Department should:

- refine the Exchange draw checklist to include the supporting documentation required for various draw types, and
- review the contents of all checklists and guidance to ensure that consistent requirements are communicated to all program participants.

Management's Response

In March 2010, Management and staff implemented a standardized process and conducted a webinar training for the developers and lenders; the training program is posted to the Exchange website and is a continued point of reference. Although the initial standardized process was very helpful, the draw process has continued to be modified and clarified as deemed appropriate by Management.

The checklist within the Exchange workbook has been modified to provide clarity and coincides with the checklist on the Exchange 16.12 Draw Request form. When Management determines that a deviation from the checklist is warranted, such deviation is documented within the draw.

Additional guidance has been provided to staff and will be provided to the development community via the Exchange website by August 31, 2011.

Chapter 3

Third Party Inspection Reports Could be Enhanced

During construction, Exchange developers submit third party inspection reports and progress photos to support their draw requests. These reports indicate the status of a construction project at a point in time. The Department's Asset Management Plan indicates the Department will review and rely on these reports to ensure that they appropriately support the amount of funds requested from the Department. The Department does not require inspectors to include specific information in third party inspection reports.

The Asset Management Section informally requests that properties include four items, which it considers critical components of an inspection report:

- percentage of construction completion,
- construction status, such as on time or delayed,
- assessment of adherence to predetermined construction schedule, and
- photographs of the site to verify construction.

We tested the third party inspection reports provided in support of 38 approved Exchange draws (the same sample used for draw testing) for the presence of this information and found that:

- Eight draws (21.1%) were not supported with a report detailing the estimated percentage of construction completion.
- Eleven draws (28.9%) were not supported with a report indicating construction status.
- Eleven draws (28.9%) were not supported with a report indicating adherence to the construction schedule.
- Five draws (13.2%) were not supported by photographs indicating performance on the project.
- Of the exceptions noted above, three inspection reports were missing entirely and in one case, the inspection report provided was for another property.
- We also noted that twenty-four (63.2%) of the reports tested did not address the quality of materials or workmanship on the project.

There are broad differences between the third party inspection reports submitted by the different properties. They range in format, content, size, and approach. Because the inspectors who provide the third party inspection reports are hired by the primary lender or in some cases by the developer of the property, the Department has limited authority regarding the contents included in the third party inspection reports.

Because various stakeholders rely on the third party inspection reports to assess the progress and condition of the project, inconsistent or omitted information may limit the usefulness of the reports to the Asset Manager, Exchange staff and other stakeholders. Without relevant and timely information such as percentage of completion, timeliness of construction, adherence to construction schedule, construction quality or photos to

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substantiate work on the project, stakeholders may not have the information necessary to make the best possible decisions regarding the developments or the Exchange program.

Recommendation

The Department should consider communicating to the third party inspectors, via the lenders and developers, the preferred contents and components of an inspection report (such as percentage of completion, status, adherence to a predetermined construction schedule, construction quality, and photographs).

Management's Response

Management acknowledges some inconsistencies as it relates to the content of the inspection reports. Standardized content for the inspection reports is now required. For transactions that are funded with only TDHCA funds (Exchange and HOME or Exchange and CDBG transactions), staff has requested revised inspection reports with additional information if necessary. On transactions with Exchange and HUD or USDA funds, staff has requested Architect's Reports and additional information if necessary.

Clarification and additional guidance has been provided to staff and implemented. Such guidance has been communicated to the developers, lenders and inspectors as needed to ensure inspection reports provide consistent data and/or additional information.

Additional guidance will be provided to the development community as a whole via the Exchange website by August 31, 2011.

Appendix A

Objectives

The objectives of the audit were to determine whether:

- The Department is equipped to meet the U.S. Department of the Treasury's December 31, 2011 draw deadline.
- The Department processes draws in compliance with program requirements, laws, and regulations.
- Third party inspection reports provide consistent information sufficient for the Department to clearly understand the status, quality, and performance of Exchange developments.

Scope

The scope of this audit was the Tax Credit Exchange Program from February 17, 2009 (the date President Obama signed the American Recovery and Reinvestment Act into law) to May 2011.

Methodology

We gained an understanding of the Department's administration of the Exchange program by interviewing and observing key personnel within the Department who are responsible for administering the Housing Tax Credit Exchange program. We also reviewed background materials for the program including: federal and state guidance, requirements, contracts, and budget information, the Department's policies, manuals, and plans, and tracking sheets and checklists associated with the Exchange program. Based on our understanding of the program, we developed the audit objectives and created a work plan to answer each objective.

More specifically:

- To determine whether the Department is equipped to meet the U.S. Department of the Treasury's December 31, 2011 draw deadline:
 - We analyzed the construction progress and draw percentages of each development that has an agreement with the Department to receive Exchange funds in order to determine the overall status of these developments.
 - We analyzed which stages of the Department's construction monitoring and cost certification processes each development completed in order to determine how close they are to receiving all of their Exchange funds.
 - We analyzed the expected completion dates reported by third party construction inspectors to determine which Exchange developments would be finishing construction closest to the draw deadline.
 - We compared the amount of each Exchange award with the total amount of financing from all funding sources for each development to determine

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the level of financing in each development represented by Exchange funds.

- We reviewed the progress tracking sheet used by the Department's Asset Management Division to determine whether it successfully identified low-performing developments.
 - We reviewed communication from the Department's Asset Management Division to low-performing developments to determine what measures the asset managers are taking to ensure the success of the developments.
 - We interviewed Exchange program staff to determine what measures they are taking to ensure the success of the developments.
- To determine whether the Department processes draws in compliance with program requirements, laws, and regulations:
- We selected a systematic and judgmental sample of approved Exchange program draws from the Department's Housing Contract System, which included a broad range of contract numbers and amounts drawn.
 - We tested each draw in the sample to determine whether:
 - the executed copies of the required written agreements were available in the Housing Contract System,
 - the documents required by the Exchange Draw Request Checklist were included with the draw request,
 - the draw included ineligible costs as identified in the Exchange program draw training for subrecipients,
 - the draw agreed with the development's proposed budget as required by the Exchange Draw Request Checklist, and
 - the draw was approved by the other lenders as required by the developer's written agreement with the Department.
 - We also assessed the sufficiency of the supporting documentation provided by the developers to determine whether the Department's draw approvals were adequately supported.
- To determine whether third party inspection reports provide consistent information sufficient for the Department to clearly understand the status, quality, and performance of Exchange developments:
- We selected a judgmental sample of approved Exchange program draws from the Department's Housing Contract System which included a broad range of contract numbers and amounts drawn.
 - We reviewed the third party inspection reports associated with each draw to determine whether the inspector included in the report:
 - the percentage of project completion,
 - the status of construction,
 - a discussion of the scheduled progress of the project,
 - photographs indicating performance on the project, and
 - a discussion of the quality of the construction.

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We used the following documents as criteria:

- Code of Federal Regulation Title 31, Part 32
- American Recovery and Reinvestment Act Section 1602
- Texas Administrative Code Title 10, Part 1, Chapter 60, Subchapter A
- 2007 Housing Tax Credit Qualified Allocation Plan
- 2008 Housing Tax Credit Qualified Allocation Plan
- 2009 Housing Tax Credit Qualified Allocation Plan
- U.S. Treasury Recapture Guidance for ARRA 1602
- The Department's Executed Application for Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits for 2009
- The Department's Executed Grantee Terms and Conditions for Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits for 2009
- Executed Housing Tax Credit Exchange Program Subaward Agreement
- Executed Housing Tax Credit Exchange Program Disbursement Agreement
- Executed Housing Tax Credit Exchange Program Recapture Mortgage
- The Department's Contract Set Up and Draw Request Checklist for Exchange Activities
- The Department's Tax Credit Exchange Program Policy Supplement
- The Department's Asset Management Plan
- The Department's Tax Credit Exchange Program Cost Certification Procedures Manual
- U.S. Treasury Section 1602 Reporting Requirements for Post-Subaward Compliance
- The Department's 2009 Tax Credit Exchange Program Application Threshold Review Sheet
- The Department's Housing Tax Credit Exchange Program May 12, 2010 Schedule of Events
- The Department's Standard Operating Procedure 1100.01
- The Internal Revenue Code, Section 42

Type of Audit

This audit was a performance audit of the Tax Credit Exchange Program.

Report Distribution

As required by the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), this report is distributed to the:

- Texas Department of Housing and Community Affairs' Governing Board
- Governor's Office of Budget and Planning
- Legislative Budget Board

Texas Department of Housing and Community Affairs – Internal Audit Division
August 2011

Report # 11-1044

An Internal Audit of the Tax Credit Exchange Program

- State Auditor's Office
- Sunset Advisory Commission

Project Information

We conducted audit fieldwork from May 2, 2011 through June 3, 2011. This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing.

The following staff performed this audit:

Kari Reitan (Project Manager)
Derrick Miller
Betsy Schwing, CPA, CFE
Nicole Elizondo, CFE, CICA

Appreciation to Staff

We would like to extend our sincere appreciation to management and staff of the Tax Credit Exchange Program for their cooperation and assistance during the course of this audit.

Appendix B

Background

The Housing Tax Credit Exchange Program (Exchange) was mandated by section 1602 of the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA enabled the U.S. Treasury to allocate money to the states to exchange a portion of the annual allocation amount of tax credits for grant funds. These funds must be used to finance the construction, acquisition, or rehabilitation of qualified low-income housing. In accordance with ARRA, the awards are non-repayable cash assistance and are subject to the same limitations as an allocation of housing tax credit dollars under Internal Revenue Code (IRC) 42.

The Department's policy states that any development that received a housing tax credit award in award years 2007, 2008, or 2009 is eligible to apply for Exchange funding. Developments receiving Exchange funds must continue to meet the threshold and scoring requirements and all other requirements of the Qualified Allocation Plan (QAP) under which they were originally allocated tax credits.

The Department submitted two separate applications to the Treasury for Exchange funds in November 2009 and July 2010. Both applications were approved, providing the Department with total Exchange funding of \$594,091,928. The Department subsequently awarded all Exchange funds, providing funding to 89 developments.

The Treasury set a deadline for all Exchange funds to be disbursed to subrecipients by December 31, 2011. Any funds which are not disbursed by the deadline must be returned to the Treasury on January 1, 2012. The Treasury has also issued recapture guidance stating that in the event the Department must recapture a portion of the Exchange award from the subrecipient but is unable to collect, the Treasury will not require the Department to return the recapture penalty so long as the Department takes all available appropriate actions to collect the funds.

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation and Discussion of the Status of External Audits.

RECOMMENDED ACTION

None, information item only.

BACKGROUND

There were 16 external audits, reviews or monitoring visits in fiscal year 2011. Of these:

- 13 are complete and the reports released,
- 1 is complete but the report has not yet been received, and
- 2 are complete but no report is anticipated.

In fiscal year 2012, there are 3 external audits underway. These include the annual statewide audit by KPMG, the audits of the Department's financial statements by the State Auditor's Office and a HUD-OIG review of the Neighborhood Stabilization Program (NSP).

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS
August, 2011**

External Audits/Activities	Scope/Description	Stage	Comments
KPMG	The scope of the financial portion of the Statewide Single Audit includes an audit of the state’s basic financial statements for fiscal year 2010 and a review of significant controls over financial reporting and compliance with applicable requirements.	Completed	Report released in March 2011.
Deloitte and Touche	Annual opinion audits: <ul style="list-style-type: none"> • Basic Financial Statements for the FYE August 31, 2010. • Revenue Bond Program Audit for the FYE August 31, 2010. • FY 2010 Unencumbered Fund Balances. 	Completed	Report released in December 2010.
HUD-OIG	To determine whether the Department monitored the program management firm (ACS) to ensure compliance with federal and state requirements and if ACS has properly supported costs submitted for reimbursement.	Completed	Report released in January 2011.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released in November 2010.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released in December 2010.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released in March 2011.
HUD	HUD provided technical assistance and reviewed files for rent reasonableness in the Section 8 program’s SAFMR demonstration project.	Completed	No report is anticipated.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS
August, 2011**

External Audits/Activities	Scope/Description	Stage	Comments
NeighborWorks	Monitoring and compliance review of the National Foreclosure Mitigation Counseling Program.	Completed	Report released in March 2011.
Treasury	An on-site compliance review of the Section 1602 program (Housing Tax Credit Exchange Program).	Completed	No report is anticipated.
HUD	A monitoring review of TDHCA and TDRA's disaster recovery program, including fundability documentation, subrecipient management and policy controls for fraud, waste and mismanagement.	Completed	Report released May 19, 2011.
HUD	A monitoring review of TDHCA and TDRA's disaster recovery program, including fundability documentation, subrecipient management and policy controls for fraud, waste and mismanagement.	Completed	Report released June 1, 2011.
DHS	The Dept. of Homeland Security conducted an audit of FEMA's management of the Alternative Housing Pilot Project at the Department.	Completed	Report had not yet been released.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released June 28, 2011.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Completed	Report released August 31, 2011.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS
August, 2011**

External Audits/Activities	Scope/Description	Stage	Comments
HUD	Section 8 Management Assessment Program (SEMAP) Review.	Completed	Report released April 20, 2011.
HUD	A review of the Homeless Prevention and Rapid Re-housing Program.	Completed	Report released August 16, 2011.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2012 EXTERNAL AUDITS
August, 2011**

External Audits/Activities	Scope/Description	Stage	Comments
KPMG	The scope of the financial portion of the Statewide Single Audit includes an audit of the state’s basic financial statements for fiscal year 2011 and a review of significant controls over financial reporting and compliance with applicable requirements.	Fieldwork	Report anticipated in March 2012.
SAO	Annual opinion audits: <ul style="list-style-type: none"> • Basic Financial Statements for the FYE August 31, 2010. • Revenue Bond Program Audit for the FYE August 31, 2010. • FY 2010 Unencumbered Fund Balances. 	Fieldwork	Report anticipated in December 2011.
HUD-OIG	An audit of the Neighborhood Stabilization Program (NSP1). Scope includes subrecipient monitoring and status of program requirements (obligation, procurement, expenditure and program income) for January 15, 2009 to July 15, 2011.	Planning	Carried over from FY 2011.

5

**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation and Discussion of the Status of Recent External Audit Reports.

RECOMMENDED ACTION

None, information item only.

BACKGROUND

DOE Monitoring Report of the Weatherization Assistance Program (June 28, 2011) –

DOE conducted an on-site monitoring visit to two subrecipients – Dallas Health and Human Services and the City of Fort Worth. They identified five findings and three concerns:

- Finding – An oven and a gas range were replaced but these costs should be disallowed because the test results did not support replacement of these appliances under the health and safety standards.
- Concern – Client files in Dallas indicate that the ARRA grant funds are used to pay for some measures and funds from the annual DOE grant are used to pay for other measures in the same home. This is a violation of DOE guidance.
- Concern – The Department did not issue a final Financial and Performance Report for Program Year 2009 – 2010, which caused the reporting system to accumulate amounts for two years and resulted in inaccurate reports in the system. The final report was subsequently issued, but the reports for 2010 – 2011 have not been corrected.
- Finding – Lead safety forms and mold forms were missing from client files in Dallas.
- Finding – Assessments and inspections are poorly done by Dallas agency personnel or the contractors. Missing measures or missed opportunities were not identified.
- Finding – Numerous issues were identified in the unit inspections for both subrecipients. These issues included poor air sealing, no blankets or pipe wraps on hot water heaters, missing documentation for historic preservation, missing insulation, and extensive sheetrock repair.
- Finding – The NEAT audit software is not used correctly. This affects the identification of specific work to be done in individual units.
- Concern – Lack of a formal requirement for use of the Texas Field Guides affect the direction and consistency of weatherization work statewide.

In addition, DOE discussed 13 under-performing subrecipients and the Department's plans for managing these subrecipients to ensure that the ARRA funds are spent.

DOE Monitoring Report of the Weatherization Assistance Program (August 31, 2011) –

DOE conducted an on-site monitoring visit to three subrecipients – City of Lubbock, West Texas Opportunities in Lamesa, and Texas and South Plains Community Action Agency in Levelland.

DOE did not identify any findings during this monitoring visit. They had one concern and some issues requiring corrective action:

- Concern - Procurement training for West Texas Opportunities and South Plains Community Action Agency indicated that prices submitted by bidders for materials and labor were used as a negotiating tool to provide pricing by preferred contractors rather than accepting the lowest bid they received. DOE recommended that the Department provide additional procurement training for these subrecipients.
- Corrective action was required for several technical problems noted in the units inspected. These included water heater tank wrap, pipe insulation, and water heater venting. In addition, DOE noted that prioritization based on time spent on the waiting list occurred at two subrecipients, which is not an allowable practice, and that inspections were poorly done in all of the units they visited. As a result, measures were missed or were not corrected prior to reporting the units as complete.

Section 8 Management Assessment Program (SEMAP) Certification (April 20, 2011) –

The SEMAP review rates the Department's Section 8 Program on fifteen program indicators identified in 24 CFR (Code of Federal Regulations) and provides an overall score. The Department scored 85%, which is considered "Standard". A score of 90% or greater is considered a "High Performer". The Department had one area in which it scored "0" – Lease-Up. (The other area scoring "0" - Deconcentration Bonus, is optional and not used by the Department.) As a result of the Lease-Up score, the Department reports that they have purged the waiting lists for nine local operator areas and re-opened the lists in two areas that have sufficient housing stock and can administer additional vouchers.

HUD Monitoring Report on the Homelessness Prevention and Rapid Re-Housing Program (HPRP) (August 16, 2011) –

HUD examined the Department's implementation of the HPRP program including activities, policies and procedures, program progress, eligibility activities and oversight of subrecipients. Overall, HUD believes that the program is well-managed and staff is knowledgeable regarding the program requirements. There were no instances of ineligible activities and no findings noted.

There was one significant concern. The Department completed monitoring on all 58 subrecipients and identified nineteen for full monitoring visits. However, only nine had been monitored as of the date of HUD's review and of these, only five monitoring reports were sent out. The standard operating procedures require that monitoring reports be sent out within 45 days of the monitoring visit. The first three reports exceeded the 45 day deadline by an average of 71 days. The last two took approximately two weeks longer than the 45 days to be completed and sent out. HUD recommended that management review this requirement and make adjustments to the monitoring review time.



Department of Energy

Golden Field Office
1617 Cole Boulevard
Golden, Colorado 80401-3393

June 28, 2011

Mr. Tim Irvine
Acting Executive Director,
Texas Department of Housing and Community Affairs
221 East 11th Street
P.O. Box 13941
Austin, Texas 78711-3941

Subject: DOE On-site Monitoring Report of Texas Weatherization Assistance Program

Dear Mr. Irvine,

On May 23 --May 27, 2011, Paul Jiacoletti, and Carl Saueressig, Project Officers with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the State of Texas Weatherization Assistance Program. Attached is a report on the results of the visit.

The monitoring assessment included a review of financial and programmatic aspects of the Texas WAP, as well as a visit to two sub grantee agencies. Please find enclosed the DOE Monitoring Report, which summarizes findings, observations and recommendations made during the monitoring visit. There are five findings and three concerns listed in the body of the report. Please submit a response within the next 30 days indicating what follow-up actions will be taken on the findings, concerns and recommendations contained in the report.

Please contact Mr. Jiacoletti, Mr. Saueressig or myself if you have any questions or concerns about this report. We may be reached at paul.jiacoletti@go.doe.gov (720-356-1632), carl.saueressig@go.doe.gov (720-356-1597) and rob.desoto@go.doe.gov (720-356-1601) respectively.

We look forward to continued interaction with you and your staff in the effective implementation and operation of the Weatherization Assistance Program.

Thank you for the cooperation and assistance your staff provided during the visit.

Sincerely,

Robert L. DeSoto

Branch Chief

cc: Michael DeYoung, TDHCA
Kellyn Cassell, NETL
Carl Saueressig, DOE
Paul Jiacoletti, DOE



U.S. Department of Energy 2009 American Recovery and Reinvestment Act (ARRA)



**Office of Energy Efficiency and Renewable Energy
Weatherization and Intergovernmental Program**

**To: Tim Irvine, Interim Executive Director
Texas Department of Housing and Community
Affairs
State of Texas**

**From: Paul Jiacoletti, Carl Saueressig
U.S. Department of Energy
Golden Field Office**

**On-site Monitoring Report for State of Texas
Grant Award DE-EE0000094 and DE-EE0000190
Dates of Visit: May 23rd through May 27th, 2011**

June 2, 2011

1 Participants

Paul Jiacoletti, Project Officer – United States Department of Energy
Carl Saueressig, Project Officer – United States Department of Energy
Michael DeYoung, Community Affairs, Division Director – Texas Department of Housing and Community Affairs
Stephen Jung, Energy Assistance, Project Manager, Monitoring
Daniel Arieza, Program Monitor, Dallas Health and Human Services
Joe Cordoba, Program Manager, City of Fort Worth
David Reid, IT Manager, City of Fort Worth

2 Executive Summary

During the week of May 23rd through May 27th the Project Officers conducted an on-site monitoring visit of the Department of Energy Weatherization Assistance Program administered by the Department of Housing and Community Affairs in Austin, Texas. The monitoring visit was conducted in the cities of Dallas, Texas at the Dallas Health and Human Services agency and in the City of Fort Worth, Texas at the City Weatherization office. The focus of the monitoring trip was on two Weatherization Assistance Grants administered by the Grantee for low-income persons. The Grants are: DE-EE0000094 (ARRA) and DE-EE000190 (Annual DOE WAP Grant).

This report for this monitoring visit contains five (5) findings and three (3) concerns. Recommendations for program improvements are also provided.

A corrective action plan with action item responses must be included for all findings and concerns identified in this report. The response must include a description of the specific action to be performed and the dates the item will be completed. **The CAP must be submitted no later than 30 days after receipt of this report.**

3 Financial Review

The questions for the on-site checklist which emphasize the financial portion of the required monitoring protocols with the Grantee were reviewed and the responses recorded. These have been submitted in the PAGE system as part of this monitoring visit and are also included with this report.

Weatherization costs charged for measures on units at both agencies were carefully reviewed as part of the file review process at Dallas and Fort Worth. The file review was designed to discover discrepancies between measures which were paid for with Weatherization Grant funds and missing measures required by the audit which should have been installed in the units visited by the DOE Project Officers.

Finding #1: An oven unit was replaced on Work Order #577 under Health and Safety and a gas range was replaced on Work Order #664 under Health and Safety by subcontractors for the City of Fort Worth. These costs should be disallowed. The pre-replacement Carbon Monoxide readings did not meet the threshold for replacement identified in the Texas Field Guides or State Plan. Work Order #577 did indicate levels over 150 ppm, however it was never ascertained or documented in the file whether this could have been resolved by cleaning or tuning the appliance. The top burner measurements were within guidelines established by the field guides and state plan. Work Order #664 had pre-replacement readings above the recommended combustion levels on the two rear burners.

Action Item for Finding #1: The Grantee must return to the City of Fort Worth, review the file documentation and determine whether these costs are allowable, based on the testing information and the requirements of both the field guides and the state plan. If the costs are disallowed by the Grantee, copies of the journal entries for disallowed costs and any correspondence to the agency disallowing these costs must be forwarded to DOE. The Grantee must also provide Technical Training and Assistance regarding the requirements for replacement and determination of a funding source other than DOE WAP funds.

Concern #1: A review of client files in Dallas appears to indicate that funding from the ARRA grant is used to pay for some measures and funding from the Annual DOE grant is used to pay for measures in the same unit. A review of the Building Weatherization Record indicates that the coding used to track these payments supports this observation. This is a violation of the guidance provided in Weatherization Program Notice 09-1AB, Section 2.5 under "Budget".

Action item: The Grantee must review the files from this agency and ascertain that co-mingling of funding did not take place in these units. If the Grantee discovers that co-mingling of funds did in fact take place, they must submit to DOE the adjusting journal entries for these units based on a determination of disallowed costs and demonstrate that controls have been put in place to ensure that co-mingling of grant funds shall not happen in the future.

Concern #2: The Grantee must correct their Quarterly Financial and Performance reports for the Annual DOE Weatherization Grant (Grant #EE-0000190).

After a thorough review of these Financial and Performance Reports with TDHCA staff, it was ascertained that a final report for Program Year 2009-2010 was never issued which caused the PAGE reporting system to accumulate amounts from two years. This compromised the accuracy of the reports. Upon discussing this issue with the Grantee, the final report was issued for Program Year 2009-2010 and approved by the Project Officer.

The reports for Program Year 2010-2011 have not been fully corrected. The first quarter report has been corrected and approved; however, the Grantee still needs to correct the remaining three quarters and issue a final report. When asked during the entrance briefing, Michael DeYoung provided the corrected quarterly sheets for this grant for Program Year 2010-2011. The Project Officers reviewed the reports and they seem to be in order. All that remains is for the Grantee to correct the reports in PAGE and submit them to DOE for approval. (It must also be noted that the employee newly charged with financial reporting has been on extended leave due to a severe family illness.) A commitment was made to the Project Officers by the Grantee to correct these reports before the end of June.

Action item for Concern #2: The Grantee must correct these reports by the end of the month of June 2011 to enable an accurate reporting of Financial and Performance activities for Program Year 201-2011 for the Weatherization Grant. The Grantee is encouraged to contact the Project Officers to effect the changes at the earliest available time.

A more thorough review of the Grantee's financial management procedures falls under the purview of the National Energy Technology Laboratory (NETL) the contracting office for DOE's WAP. The Contracting Officer is responsible for monitoring the DOE Weatherization Grantees for financial compliance against Federal regulations and Grantee's policies and procedures. This report will be

shared with the appropriate NETL personnel and a follow-up financial review may be conducted by NETL Procurement personnel.

4 Administrative Review – Award File and Personnel Review

An administrative review of the award file was not conducted. A Personnel Review was not conducted on this monitoring trip. This was done on the monitoring trip in February of this year and will be re-visited in Austin during the monitoring trip in February of 2012.

5 Programmatic Review

The Project Officers reviewed client files at the agency offices prior to reviewing housing stock in the field with state monitoring personnel to ascertain that all measures called for and those measures paid for as part of the weatherization of these homes were in fact completed. The Project Officers also provided oversight to ascertain that all Program Rules are followed and the Grantee is performing those functions under the grant which were outlined in the state plan approved by DOE. This process included a review of the quality of work on site and brief interviews with the client to ascertain satisfaction with the program or identify areas of improvement for the state regarding the weatherization of these units.

Table 1: Properties Visited During DOE On-Site Monitoring

Job No.	Dwelling Type	City/State	Weatherization Status
Work Order # 09DA3749	Manufactured Home	Dallas, Texas	Completed
Work Order # 09DA3452	Single Family	Carrollton, Texas	Completed
Work Order # 09DA3687	Single Family	Dallas, Texas	Completed
Work Order # 09DA3278	Single Family	Carrollton, Texas	Completed
Work Order # 09DA3796	Manufactured Home	Dallas, Texas	Not visited - file review only
Work Order # 664	Single Family	Fort Worth, Texas	Completed
Work Order # 577	Single Family	Fort Worth, Texas	Completed
Work Order # 3544	Multi-Family unit	Fort Worth, Texas	Completed
Work Order # 3733	Multi-Family unit	Fort Worth, Texas	Completed
Work Order # 3734	Multi-Family Unit	Fort Worth, Texas	Completed

The results of the monitoring review are as follows:

Finding #2: A review of client files revealed the following deficiencies in file documentation:

- LSW/RRP documentation in the files at the Dallas Health and Human Services agency in Dallas, Texas did not contain required documentation for Lead Safe Weatherization Practices. This is a violation of WPN 08-6, 09-6, 10-6 and WPN 11-6. There was no photographic evidence (required by LSW standards in the Texas State Plan page 11 of 26 in the Master file) There were no test results to ascertain the existence of lead in homes constructed prior to 1978, no evidence that containment areas were in use, no evidence that PPE was used by on-site crew members, etc.
- With the exception of one file, there were no mold forms in use by the sub-grantee agency and visible in the client file. The assumption that this does not have to be documented by sub-grantee agencies is false and has been discussed on previous monitoring visits with the Grantee. This is a violation of the requirements found in Weatherization Program Notice 05-1.

Action item for Finding #2: The Grantee must return to the Dallas Health and Human Services Agency, review the client files and ascertain why the required documentation is not there. The Grantee must ensure that the sub-grantee agency includes this documentation in all client files in the future. The Grantee must provide Training and Technical Assistance to this sub-grantee agency to ensure that agency personnel understand the importance of documenting that required protocols for LSW/RRP were followed and that Health and Safety concerns regarding indoor air quality and client health are also followed and documented. The Grantee must emphasize during this Training and Technical Assistance that the potential for fines which cannot be paid with program funds exists when the established protocols for LSW/RRP are not properly followed.

Finding #3: Assessments are poorly done as are the inspections by agency personnel or the contractors. This does not meet the requirements of the program. Missing measures or missed opportunities are an indicator of the poor quality of the weatherization effort for the Dallas agency.

Action Item for Finding #3: The Grantee must return to Dallas Health and Human Services and provide Training and Technical Assistance to assessors to ensure that missed opportunities or unidentified measures are identified during the assessment phase of the weatherization effort. The Grantee must also ensure that the assessed measures are reflected appropriately and accurately in the NEAT/MHEA audits and that the measures are listed completely on the work order printouts. This effort should be tracked to ensure that the result of the Training and Technical Assistance results in higher quality assessments and an overall improved weatherization effort.

Finding #4: Field observations reveal the following deficiencies:

- Air sealing was poor for all units which were visited for Dallas Health and Human Services in Dallas, Texas
- Solar Screen installation at Work Order # 09DA3749 was done on the West side of the manufactured home. The west side is shaded for the most part by trees. This represents an unnecessary expense to the program and demonstrates the poor quality of the final inspection process and potentially the assessment/audit procedure.
- There were no blankets or pipe wrap installations on Domestic Hot Water Tanks in any unit observed. Some units were already in the conditioned space and did not require this, although it should be considered and pipe wrap is required by the field guides. (Texas Weatherization Field Guide, Page 33) Those hot water tanks in closets where additional combustion air sources were installed (and as a result were segregated from the conditioned space by moving the pressure/temperature barrier) were poorly done. There was some weather-stripping of doors to the closets, however no insulation was provided on the doors or interior walls.
- The Dallas agency has little or no documentation for Historic Preservation. Only one file reviewed demonstrated that the historic preservation protocols had been followed. There is an assumption that some work will not result in an "adverse condition" historically. This is false. The Historic Preservation procedures spelled out in the Memorandum of Understanding with DOE must be followed every time for every unit. This will allow the sub-grantee agency to meet the required standard and provide necessary documentation of their efforts in the client file.
- One unit in Fort Worth did not contain insulation in one wall. (Work Order #664) This was ascertained by the DOE and State monitors when the contractor was asked to drill a hole in the wall to verify the presence of insulation. After this was done, it was determined by the Program Officer from the State and the DOE Project Officer that there was no insulation in this wall cavity. This was disputed by the inspector for the agency. The Program Officer requested another hole to be drilled to verify the accuracy of the finding. Again, no insulation was found, although it was required by the audit and paid for by the program. There will be a need to return to this unit to install the required insulation. This correction cannot be paid for with DOE funds as stated in WPN 11-3.
- On this same work order, two walls were completely re-done with new sheetrock and one ceiling in a bedroom was also re-done. This was charged to Health and Safety. When asked by the State Monitor, the contractor replied that the existing sheetrock would not hold the wall insulation and needed to be replaced. This goes beyond an incidental repair and most certainly is not a Health and Safety expense. This unit should have been deferred until the repairs could be made.

Action Item for Finding #4: The Grantee must address their corrective actions for each of the above listed findings and provide a description of the specific actions to be performed to resolve these findings and the dates in which that item will be completed. If costs are disallowed, DOE is requesting copies of journal entries which document refunded costs to the program or evidence that unrestricted funds have been used to reimburse the program for the disallowed costs.

Finding #5: The NEAT audit is not being run properly. The Project Officers and the State Monitor both observed that in Dallas there were measures that did not rank either as a single measure or in the whole house column. In fact, these measures indicated zeros in both instances. This is certainly an indicator that the audit was run improperly because these are standard measures which should have been ranked by the audit and instead showed no ranking whatsoever, even though they were listed. Measures are being installed which do not rank. These must be disallowed costs.

Action Item for Finding #5: The Grantee must return to Dallas Health and Human Services and provide Training and Technical Assistance for the proper use of the NEAT audit. This effort must address the issues of proper input, determining which measures rank and why, how those measures interact to provide a whole house assessment and what measures should be listed on the work order to identify the parameters for final inspection.

Concern #3: There has been a concern for some time by the Project Officers that the lack of a formal requirement to use the Texas Field Guides by the sub-grantee network leaves the efficacy of the monitoring effort in doubt. It has been stated by the Grantee that this will require a public hearing based on an opinion from legal staff. .

Action item for Concern #3: The Project Officers are requesting that the Grantee re-visit this issue with the present Director who is an attorney and determine whether this requirement is indeed necessary. If so, then we strongly recommend that a public meeting be held and the field guides be instituted formally for use in monitoring the sub-grantee network. They will also be useful in providing required direction for weatherization work and consistency in the installation of measures statewide. If the Field Guides are not required, then Texas must provide their field procedures in the State Plan submitted to the Department of Energy. The Grantee is required to tell DOE what work is to be done and to what standards. This is required under 10CFR440, Sections 14 and 21.

It must be noted in this report that the Project Officers were impressed by the documentation in the files at the City of Fort Worth. All required documentation was present. The LSW/RRP documentation was exemplary and contained photographic documentation of containment on-site, proper use of Personal Protective Equipment, required signage and notification and proper documentation and measurements including maps by the RRP representative of the dates, times and steps taken to ensure that all the requirements of this rule were met. The Historic Preservation documentation existed in every file. When asked the sub-grantee stated that all files are given a historical review to ensure that none are missed. The Building Weatherization Records were complete and accurately represented all measures and their installation costs. The final inspection form which was used to check installations

against identified measures was complete and provided evidence that inspections were completed on the date signed and that required measures were in fact installed. The photographs demonstrating the unit before weatherization and after installation of the measures are another best practice recognized by the Department of Energy. It is recommended that the City of Fort Worth present their process for file documentation at the next TAACA meeting. It is our hope that the lessons learned from this agency can be used by other agencies to bolster their documentation effort.

A review of under-performing agencies under ARRA funding was done during the entrance briefing with Mr. DeYoung and Mr. Jung. During this discussion questions were asked to determine what solutions were being undertaken to increase production and expenditures for those agencies in Texas. The following is a re-cap of the answers provided for each agency.

Bee Community Action Agency, Beeville, Texas and Big Bend Community Action Council, Marfa, Texas Both agencies are smaller agencies and will not have contracts extended past the September 1st deadline. It is expected that they will fulfill their contractual obligations for units; however money may have to be moved to agencies with better expenditure histories to achieve full spend-out of the ARRA grant monies.

Brazos Valley Community Action Agency, College Station, Texas – This agency has not produced to the level capable and is behind on expenditures. Ms. Brooke Boston, Deputy Director of Community Affairs has indicated a desire to remove some funding from this agency based on the management tool TDHCA has developed which provides indicators of “convergence” of existing funding to anticipate spend out. The grant may be extended into December to ensure that this agency can complete the required number of units necessary; however they will not be extended beyond that point.

Community Services Agency of South Texas, Carrizo Springs, Texas – This agency is in the southern portion of the state and their director has indicated that he sees no reason to change their processes or procedures. They have significant disallowed costs and are on cost-reimbursement with the Grantee. Mr. DeYoung is scheduled to meet with their board and discuss the removal of funding from this agency with an expected increase to an adjacent agency (CA Corp of South Texas) which has a director and agency who have demonstrated that they can produce and properly expend grant funding.

Community Services Incorporated, Corsicana, Texas – This agency has not achieved its forecast metrics with the exception of three months. They have recently promoted a staff member to Program Director who demonstrates promise and seems capable of taking the program in the direction it needs to go. The previous Program Director was intransigent and did not wish to change. This agency has hired new contractors and also has a contractor (ATLAS) which performs its assessments. It is anticipated that they will achieve their contractual requirements in January of 2012 which will necessitate an extension of their present weatherization contract with the Grantee.

Hill Country Community Action Agency, San Saba, Texas – This has traditionally been a good agency known for high quality work and good performance. They have not been able to adjust to the increased production and expenditure requirements necessitated by the ARRA grant. They will be retained for the Annual DOE WAP grant however due to their excellent history of performance under that program. Brooke Boston is moving toward voluntary relinquishment of grant funding for the ARRA grant and moving production requirements for ARRA to adjacent agencies.

Panhandle Community Services Incorporated, Amarillo, Texas – This agency is below forecast production and expenditure levels. TDHCA (Brooke Boston) has asked them to voluntarily relinquish funding to reduce their ARRA requirements. The lack of performance by this grantee is triggering a de-obligation effort by the Grantee. Funding was reduced in April with the goal of assisting this agency to meet reduced contractual goals. The agency responded by adding contractors, assessors and inspectors and is concentrating on multi-family units to assure they meet their production goals. This may not benefit their Per-Unit-Average of \$2,600 due to the economies of scale created by multi-family weatherization. They realize they will have to do more multi-family units to achieve their production and expenditure goals.

Concho Valley Community Action Agency, San Angelo, Texas – This agency has not met production nor expenditure goals. As a result, the Grantee has removed \$1.2 million dollars in funding and they have triggered de-obligation proceedings as of March of this year. They have hired three new administrative clerks to help them with the program. They will be watched closely with expected spend out in December based on the management tool used to track the sub-grantee performance.

Tri-County Community Action Agency, Center, Texas – This agency has never met production or expenditure goals in the program since the inception of their contract. It was thought that at one time earlier they would be de-obligated and funding parceled out to adjacent agencies that could provide the required levels of service to potential clients in the counties Tri-County is supposed to be serving. Texas has tried extensive T&TA with this agency; however they have not demonstrated the acumen necessary to properly administer a weatherization program. Mr. DeYoung will be speaking to their board this month to ask them to voluntarily relinquish funding and the contract. The agency is subject to de-obligation if that fails and will not be a part of the sub-grantee network at summer's end. The funding they presently receive will be allocated amongst three adjacent agencies in the area. Those agencies are: Programs for Human Services in Orange, Texas, Greater East Texas Community Assistance Program in Nacogdoches, Texas and Texoma Council of Governments in Sherman, Texas.

South Texas Development Council of Governments, Laredo, Texas – This agency has failed to produce units and as a result program expenditures are too low. The Grantee would prefer to remove funding from this agency; however the removal of funding is politically sensitive. The Texas representative who sits on the budget committee is from this area is outwardly opposed to the removal or reduction of public funding for programs in her district. Despite her outward opposition, discussion with this senator has resulted in her understanding the necessity to remove or reduce funding due to poor performance. It has been decided that the removal or reduction of funding from this agency will have to wait one month until the legislative session is over. The allocation to this agency will be significantly reduced with an anticipated December/January spend out.

City of Houston, Houston, Texas – Sharon Gamble, Energy Assistance Manager and Brooke Boston, Deputy Director of Community Affairs are in Houston this week discussing production parameters and expenditure requirements. This is the 2nd highest sub-grantee agency in the state after Dallas Health and Human Services. They must produce units in a timely fashion or have funding moved to producing agencies.

City of Dallas, Dallas, Texas – Funding has been removed from this sub-grantee (\$6 million dollars was removed in 2010) and given to an adjacent agency in Dallas. (Dallas Health and Human Services)

City of Laredo, Laredo, Texas – This agency will be de-obligated and the funding moved to CA Corp of Texas which has demonstrated that it can properly run a weatherization program. The politics and business environment this close to the border have always been an issue for the State of Texas and contributed to problems with agencies in this area. It is the express desire of the Grantee that CA Corp will be able to provide weatherization services of high quality to eligible clients and in a timely fashion while properly administering the grant.

City of El Paso, El Paso, Texas – This agency was very close to being de-obligated. They responded by hiring a new employee who has run other agencies well in the past. She has responded by instituting changes and hiring personnel, while putting needed controls and processes in place. This agency has requested an extension of grant funds past the September 1st contract deadline; however TDHCA told the agency the fulcrum for extensions lies in performance. The Grantee will monitor their performance during the summer months to determine if a contract extension will be done.

6 Technical Assistance

Technical assistance was provided for dense pack insulation techniques which require removal of aluminum siding allowing holes to be drilled in the exterior of the unit and dense pack insulation blown into wall cavities. A client refused dense pack insulation in her unit because she did not want the “unsightly plugs” which would be left after installation of this measure. The Project Officers both felt this measure could have been done (and was ranked by the audit) if the siding had been removed to perform this measure.

7 Promising Practices

TDHCA has implemented a spreadsheet forecast tool to determine when full spend out and production will be achieved by all the sub-grantee agencies in Texas. This spreadsheet uses regression analysis to determine when the convergence will take place and allows the Grantee to better understand and react sooner to identify issues with various agencies in their weatherization program. It is also a forecasting tool which will allow them to better trend their expenditure levels for the grant and production levels. This was developed in-house and is used effectively by the grantee to identify de-obligation requirements for under-performing sub-grantee agencies. TDHCA is commended for this effort.

8 Conclusion

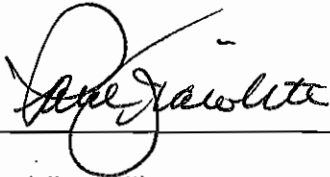
This monitoring trip is one of several the Project Officers will undertake in the State of Texas this year. The DOE Project Officers have identified the need for increased trips and as a result have placed a greater burden on the Grantee to accompany us on monitoring visits. We would like to thank the Grantee for the support they have provided including forwarding requested documents, providing monitoring staff on-site and being present at entrance and exit briefings outside of their home offices in Austin, Texas.

We would also like to acknowledge the efforts of two Program Officers who monitor the WAP for the State of Texas and provided tremendous assistance to the DOE Project Officers on this trip. They are Rosy Falcon who was essential in providing assistance in Dallas by scheduling units, providing answers to our questions and requested documents and Walter Griner who provided

copies of requested documents, answered our questions during on-site monitoring and proved to be extremely helpful during the monitoring effort in Fort Worth. It has been our pleasure to work with these two Program Officers in the past. Both demonstrate a thorough knowledge of the program, program regulations both at the Federal and the State levels, an understanding of weatherization techniques, including the proper use of audits for assessing measures and demonstrated skill in determining the allow ability of costs and any deficiencies by sub-grantee contractors and staff. Their assistance has been an invaluable help to both of the Project Officers.

I have conducted this monitoring visit in accordance with DOE standard procedures using the appropriate monitoring checklists for the purpose of forming an opinion on the general administration of the grant.

Report Prepared by:



Paul Jiacoletti

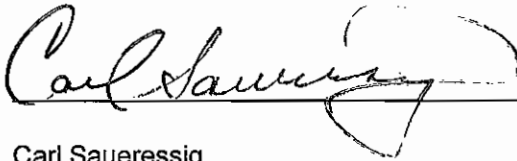
6/2/11

Date

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401



Carl Saueressig

6/2/11

Date

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

Report Reviewed by:



Robert L. DeSoto

6/27/11

Date

Weatherization Assistance Program

Golden Field Office



Department of Energy

Golden Field Office
1617 Cole Boulevard
Golden, Colorado 80401-3393

August 31, 2011

Mr. Tim Irvine
Acting Executive Director,
Texas Department of Housing and Community Affairs
221 East 11th Street
P.O. Box 13941
Austin, Texas 78711-3941

Subject: DOE On-site Monitoring Report of Texas Weatherization Assistance Program

Dear Mr. Irvine,

On July 11th to July 15th, 2011, Paul Jiacoletti, and Carl Saueressig, Project Officers with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the State of Texas Weatherization Assistance Program. Attached is a report on the results of the visit.

The monitoring assessment included a review of financial and programmatic aspects of the Texas WAP, as well as a visit to three sub grantee agencies. Please find enclosed the DOE Monitoring Report, which summarizes findings, observations and recommendations made during the monitoring visit. There are no findings, one concern, and observations with recommended corrections for deficiencies which were found while visiting completed units at the agencies visited. They are listed in the body of the report. Please submit a response within the next 30 days indicating what follow-up actions will be taken on the concerns and recommendations contained in the report.

Please contact Mr. Jiacoletti, Mr. Saueressig or myself if you have any questions or concerns about this report. We may be reached at paul.jiacoletti@go.doe.gov (720-356-1632), carl.saueressig@go.doe.gov (720-356-1597 and rob.desoto@go.doe.gov (720-356-1601) respectively.

We look forward to continued interaction with you and your staff in the effective implementation and operation of the Weatherization Assistance Program.

Thank you for the cooperation and assistance your staff provided during the visit.

Sincerely,

Robert L. DeSoto

Branch Chief

cc: Michael DeYoung, TDHCA
Kellyn Cassell, NETL
Paul Jiacoletti, DOE
Carl Saueressig, DOE



U.S. Department of Energy 2009 American Recovery and Reinvestment Act (ARRA)



**Office of Energy Efficiency and Renewable Energy
Weatherization and Intergovernmental Program**

**To: Tim Irvine, Interim Executive Director
Texas Department of Housing and Community
Affairs
State of Texas**

**From: Paul Jiacoletti, Carl Saueressig
U.S. Department of Energy
Golden Field Office**

**On-site Monitoring Report for State of Texas
Grant Award DE-EE0000094 and DE-EE0000190
Dates of Visit: July 11th through July 15th, 2011
City of Lubbock, West Texas Opportunities, Inc. and
South Plains Community Action Agency**

July 21, 2011

1 Participants

Paul Jiacoletti, Project Officer, Department of Energy
Carl Saueressig, Project Officer, Department of Energy
Walter Griner, Program Officer, Department of Housing and Community Affairs, State of Texas

2 Executive Summary

The purpose of this visit was to monitor the State of Texas Weatherization Assistance Program, assess deliverables and determine the efficacy of the Grantee effort to communicate to their sub-grantee agencies the requirements of the Weatherization Assistance Program. The visit provided an opportunity for DOE Project Officers to observe any deficiencies in Training or technical assistance, review a sample of Davis-Bacon payrolls to ensure they are being submitted on time and correctly, ensure that the requirements for Historical Preservation are followed and confirm that all protocols and procedures for Lead Safe Weatherization are followed to ensure the safety of Weatherization personnel and the client.

3 Financial Review

A financial review of the Grantee was not performed on this monitoring visit. The purpose of this visit was to provide program oversight, review the quality of the work performed by Sub-grantee agency staff and crews and determine if the mission of the Weatherization Assistance Program is being carried out according to regulation, guidance and State work standards.

A more thorough review of the Grantee's financial management procedures falls under the purview of the Procurement Office of the National Energy Technology Laboratory (NETL). The Contracting Officer is responsible for monitoring the DOE Weatherization Grantees for financial compliance against Federal regulations and Grantees policies and procedures. This report will be shared with the appropriate NETL personnel and a follow-up financial review may be conducted by NETL Procurement personnel.

4 Administrative Review – Award File and Personnel Review

Carl Saueressig, DOE Project Officer conducted Interviews with Sub-grantee personnel at each agency visited. The sub-grantee monitoring tool was used during these interviews and provided the questions addressing the Grantee flow down requirements for:

- Procurement
- Davis-Bacon weekly payroll submittals, compliance with the certified payroll requirements, and accuracy of the payment of Davis-Bacon wages to eligible contractors.
- Historic Preservation
- LSW/RRP requirements for documentation and compliance with existing protocols and procedures
- Staffing

4.1 Issues and Concerns

Concern: Procurement training for West Texas Opportunities in Lamesa and South Plains Community Action Agency in Levelland, Texas indicated that prices submitted by bidders for Weatherization materials and labor were used as a “negotiating” tool to provide pricing for Weatherization services by preferred contractors rather than using the low bid submitted.

Action Item: Return to these agencies and provide procurement training to staff at West Texas Opportunities and South Plains CAA to ensure they understand the appropriate process and utilize it properly rather than using procurement information to “negotiate” pricing for the WAP. This process should be reviewed and implemented based on the requirements of the Texas Administrative Code Section 5.10 and the Financial Regulations for procurement stated at 10CFR600.236.

5 Programmatic Review

The DOE Project Officers visited three agencies during this monitoring trip. The agencies were the City of Lubbock, West Texas Opportunities Inc. in Lamesa, Texas and South Plains Community Action Agency located in Levelland, Texas.

Table 1: Properties Visited During DOE On-Site Monitoring

Job No.	Dwelling Type	City/State	Weatherization Status
Work Order #ARRA 209	Multi-Family	Lubbock, Texas	Completion
Work Order #ARRA 212	Multi-Family	Lubbock, Texas	Completion
Work Order #ARRA 217	Multi-Family	Lubbock, Texas	Completion
Work Order #248	Single Family	Lubbock, Texas	Completion
Work Order #2010-80	Single Family	Lubbock, Texas	Completion
Work Order #11DA118	Single Family	Lamesa, Texas	Completion
Work Order #11DA099	Single Family	Lamesa, Texas	Completion
Work Order #11DA045	Single Family	Lamesa, Texas	Completion
Work Order #11DA051	Single Family	Lamesa, Texas	Completion
Work Order #11DA036	Single Family	Lamesa, Texas	Completion
Work Order #10-BA-A0038	Single Family	Muleshoe, Texas	Completion
Work Order #11-BA-A0053	Single Family	Muleshoe, Texas	Completion
Work Order #11-BA-A0046	Single Family	Muleshoe, Texas	Completion
Work Order #10-BA-A0036	Single Family	Muleshoe, Texas	Completion
Work Order #11-BA-A0055	Single Family	Muleshoe, Texas	Completion

Observations based on Client File Reviews and Field visits for each agency:

City of Lubbock:

- All units visited should have more air sealing done and this measure should be performed according to the standards found in the Texas Field Guides on pages 42 through 47 under the requirements for air sealing. Additionally it may be beneficial for this agency to review the Texas Field Guide Chapter 4 entitled "Diagnosing Shell and Duct Air Leakage" found on pages 77 through 81.
- Water Heater blankets and pipe wrap in all units reviewed requires more professional installation. Blankets and pipe wrap failed to provide adequate coverage in some areas and in some cases were coming undone after installation. The proper method for installation is found in the Texas Field Guides on page 33.
- Foam insulation should have been trimmed under the kitchen and bathroom sinks for Work Order #248.
- Files generally contain the correct documentation, however one file has an LSW pamphlet form which was outdated and the same file was missing a mold form (Work Order #2010-#80). These forms are required by the Texas State Plan. Page 18 of 20 and guidance issued by the Department of Energy under WPN-11 and under previous guidance
- WPN 08-6, WPN 09-6, WPN 10-6 for LSW and WPN 05-1 for mold.
- Attic insulation was well done, with good even coverage, rulers in place, damming done and all had insulation certificates and hatch covers were insulated.
- Weather-stripping when called for was done well.
- Dense-pack wall insulation was installed well with the exception of Work Order #2010-#80. Upon inspection by the state and the DOE monitors, the dense pack installation is loose and the efficacy of the measure is questionable. Please review this procedure in the Texas Field Guides on pages 65 and 66.
- Mr. Saueressig found no exceptions based on responses to the sub-grantee checklist.

West Texas Opportunities, Inc., Lamesa, Texas

- ALL files have Historic Preservation documentation signed by the SHPO. This agency checks all properties to ensure they do not "miss" any historic properties which may be adversely impacted by the weatherization effort.
- All files have signed mold forms and LSW and LSW/RRP documentation, including photos for Lead-Safe weatherization.
- It was noticed by the Project Officers that window replacements called for on the Building Work Record rank in the NEAT audit which calls into question the efficacy of the audit entries. The windows ranked with SIR's between 1.0 and 1.4. There was no documentation to substantiate that these windows could have been replaced in a cost-effective manner as required by the State Plan (page 4 of 20) and the Texas Field Guide, page 68.
- Sidewall Insulation (dense-pack installation) is too loose in the units visited. (Work Orders #11DA118, #11DA045, #11DA051 and #11DA036). The sub-grantee agency should re-visit the Texas Field Guides (pages 65 and 66 and review and institute the required protocols to ensure proper installation of this measure.
- One unit visited (Work Order #11-DA-118) had an interior door installed between the kitchen and the back bedroom. The State Monitor indicated that these costs will be disallowed. The installation of the door was done in "conditioned space". The sub-grantee failed to adequately define the thermal barrier when they chose to install and weather strip this door. In the same unit, a hole under the sink cabinet was not sealed. As a result, air infiltration is taking place causing the dense pack insulation to "leak" from the hole. The cellulose from the dense pack was found in the cabinet. This should have been readily noticeable to an inspector and corrective measures done prior to reporting this unit as completed. The State Program Officer is requiring the contractor to return and correct this deficiency. The process

for defining the thermal boundary is addressed in the Texas Field Guides on pages 99-101, and should be consulted to assure this does not occur again.

- Vent damming in attics which were insulated was done poorly if at all. Insulation was not evenly installed. Insulation certificates were in evidence however and the hatches were insulated as well. The proper procedure for this measure is outlined in the Texas Field Guides on pages 52 and 53.
- CFL costs seemed high to the Project Officers. However some replacements were paid for by ONCOR funding and some with LIHEAP funding.
- A blower door reading in one file exceeded the Building Tightness Limit by 15 cfm @ 50. This is below the Desired Air Exchange levels identified in the Texas Field Guides on page 87. As a result, the State Monitor is requiring the agency contractor to return and install mechanical ventilation. The contractor was instructed by the State Monitor to install a bathroom fan. This should provide sufficient ventilation to address the deficiency.
- One unit (Work Order #11DA099) contained a water heater in conditioned space which had no draft diverter and no PRV pipe from the valve. The Program Officer required the agency to return to address these code issues and submit proof of work including photographs and payment to the Grantee. The requirements for this work are found in the Texas Field Guides Section 2.4 on page 32.
- One work order (#11DA036) had a stove replaced. This is a mystery because there are no CO readings due to the fact that the stove is an electric stove. This was replaced under Health and Safety. These costs must be disallowed if paid for by WAP funds. This information was shared with the Program Officer during the exit briefing and TDHCA will investigate the replacement of this appliance and require reimbursement.
- The sub-grantee check list interview found the following:
 - The Organization chart had no names
 - Davis-Bacon payroll samples were reviewed and appear to be correct
 - The agency is requesting additional training in the use of the NEAT audit
 - This agency has had high amounts of turnover – the present CFO is ill and has been temporarily replaced by a local CPA who is working in conjunction with existing financial staff to ensure reporting and payments are done properly
 - The agency has had a new director since January of this year
 - The agency has hired a new coordinator (who worked for them prior to ARRA)
 - This agency needs more training on procurement. Negotiated prices are used for weatherization costs instead of low bid.

South Plains Community Action Agency, Levelland, Texas

- Of the five units visited in Muleshoe, Texas none had a pipe connected to the PRV valve on the water heater to allow safe drainage in the event of a valve release of hot water. The requirements for providing the pipe are outlined in the Texas Field Guides in Section 2.4 on page 32. If work was not performed on these water heaters the client should have been notified and referred to an agency which could provide the pipe connection to assure the safety of the occupants. This should have been documented in the client file as required in the Texas State Plan.
- The Project Officers did not find any evidence of documentation for Historic Preservation even though two of the five units clearly qualify for a review. (*Note: This was mentioned to the Program Officer for the State of Texas. He was provided the historic preservation documents during the course of his exit briefing with the sub-grantee agency.) The requirements for review are spelled out in the Memorandum of Agreement between the Department of Energy and the State of Texas and require a review. There were no photos in the files which are also required by the Memorandum of Understanding.
- A stove (Work Order #11-BA-A0055) and a domestic hot water heater (Work Order #11-BA-A0046) were replaced under Health and Safety, however there were no CO readings for either one.

- There was no Water heater tank wrap or pipe wrap on a water heater located outside the unit for Work Order #11-BA-A0046). This should have been done based on the requirements in the Texas Field Guides, Section 2.4 on Pages 32 and 33 and the allowable measures listed under Section III.3.1 in the Texas State Plan.
- Mold was suspected in one unit in the bathroom (Work Order #11-BA-A0055). The mold form indicated no mold found and was signed by the client. The Project Officers felt this should have been addressed according to the protocols found in the State Plan under the Health and Safety Plan Section 10 "Excess Moisture". This is a potential Health and Safety problem which is recognized by the State of Texas and the protocols are addressed and should be followed by the sub-grantee agency.
- Carl Saueressig, DOE Project Officer had the following results from the sub-grantee interview conducted this date:
 - ◆ Procurement training needs to be supplied to this agency to ensure that they are not "negotiating" costs for weatherization installation, rather than taking the low bid and using that amount in their reimbursement for costs. This should be consistent with the Texas Procurement Rules (T.A.C. Section 5.10.) and 10CFR600.236.
 - ◆ Davis-Bacon files appeared to be correct and accurate based on the samples provided.
 - ◆ Prioritization for the waiting list is not consistent with program regulations or the state plan – clients are given two priority points based on time spent on the waiting list. Please review 10CFR440.16 (b)(1-5).
 - ◆ Client files need complete combustion tests (pre test and post test results) and the documentation of these test results need to be in the files. It is recommended the Bacharach test sheets be stapled in the files for review. The State Plans for both ARRA and the DOE annual plan require this client file documentation under section

6 Corrective Action

Issue/Concern	Recommended Corrective Action
1) Lack of pipe from Pressure Relief Valve to within six inches of floor or drain. This is required to be assessed in the Texas Field Guides under section 2.4 "Water Heating Measures", page 32. Additionally, this is addressed under the State Plan requirements found in the Master File under Health and Safety, Section D.	During the assessment phase of the weatherization effort, the assessor/auditor should determine if a pipe exists, notify the client that it does not and refer them to an agency which can provide this piping. If the water heater is replaced, HVAC personnel should supply this pipe and install it to local code requirements.
2) Prioritization based on time spent on the waiting list (greater than one year) was being done at two of three agencies. This is not listed as an allowable practice in the State Plan or 10CFR440 Section 16(a) (1-5).	Provide Training and Technical Assistance on the correct method for prioritizing approved units waiting for WAP services at these agencies.
3) DWH tank wrap or pipe wrap installation was sporadic and this measure was not modeled in the NEAT audits run by any of these agencies. The assessment of this measure is required in the Texas Field Guides under section 2.4 "Water Heating Measures", page 33.	Model DWH tank wrap and pipe wrap in the NEAT audit and where those measures rank, install them.

4) Pre and Post CO (Bachrach) readings were not found in all files for gas appliances which were replaced as a Health and Safety expense.	Always provide Carbon Monoxide readings for gas appliance replacement during the assessment and after the appliance has been replaced BASED ON THE TEXAS FIELD GUIDE CRITERIA for replacement.
5) Inspections were done poorly in all units visited and do not conform to expectations or requirements outlined in the Texas State Plan. Measures were missed which should have been done, were done with poor workmanship and were not corrected prior to reporting the unit as complete. The inspection requirements are found in the state plans for the State of Texas in Section III.3.3 "Final Inspection"	Provide Technical Training on site to inspectors demonstrating the correct methodology for verification of the measures installed versus a comparison to the measures which were identified on the BWR. Additionally, the quality of installation of all measures should be emphasized in every unit to ensure client satisfaction and ensure that returns for corrections are significantly reduced.
6) One water heater was improperly vented – the flue lacked the proper slope which could potentially cause a back-draft condition. This is addressed in the Texas Field Guides under Section 2.4 on page 32.	The Program Officer (state monitor) required the sub-grantee agency to return and correct the problem – DOE concurs

7 Technical Assistance

Technical Assistance was provided on site to contract Weatherization crews in Muleshoe, Texas as part of our visit to South Plains Community Action Agency. Carl Saueressig provided direction on the use and proper interpretation of the results provided when using infrared cameras. The cameras were recently purchased by this agency and are used to determine whether air infiltration around doors, windows, floors and ceilings is present. They also guide the assessment process for air sealing and additional insulation in attics, walls and beneath flooring. The use of these cameras during the inspection process provides immediate feedback to the inspector regarding the coverage of the installation of attic and wall insulation without the normal destructive testing required by the removal of wall plugs. The installation coverage in attics and walls can be readily ascertained by providing an infrared picture of the temperature difference caused by air infiltration between the walls and ceiling. The camera also provides immediate feedback to the inspector because it allows the inspector to determine that the area from the floor to the bottom of the window has been insulated. If this part of the measure has not done and was called for in the audit, the corrections can be undertaken immediately prior to reporting the unit as complete. The reduction of return trips to perform this type of work and also repair plugs, coupled with the increased client satisfaction associated with this non-destructive review of the work are inherent benefits associated with the use of these cameras.

8 Conclusion

The purpose of the on-site monitoring visit was to review and assess the State of Texas Weatherization Program services provided by DOE funds. Technical Assistance was provided during the visit in order to provide information which can be incorporated by sub-grantee agency personnel to more effectively meet the weatherization mission identified in the grant. The deficiencies listed in this report have been noted by the TDHCA Program Officer and will be listed in his monitoring report. The sub-grantee agency personnel have been directed to correct them and provide evidence to TDHCA that corrections have been made.


The DOE Project Officers would like to extend our gratitude to the State of Texas Program Officer who generously provided his time to review the Weatherization effort at these three sub-grantee agencies. We commend him for his professionalism and attention to detail during these visits. We would also like to extend our thanks for providing requested documentation and answering our questions during this visit. His assistance allowed the Project Officers to perform a more complete, in-depth review of these agencies during our visit.

11/28/20
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11/28/20

9 Certification

I have conducted this monitoring visit in accordance with DOE standard procedures using the appropriate monitoring checklists for the purpose of forming an opinion on the general administration of the grant.

Report Prepared by:



Paul Jiacoletti, Project Officer

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

8/31/11

Date



Carl Saueressig, Project Officer

Weatherization Assistance Program

U.S. Department of Energy

Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

8/31/11

Date

Report Reviewed by:



Robert L. Desoto

Branch Chief

Weatherization Assistance Program

Golden Field Office

8/31/11

Date



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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June 2, 2011

Ms. Regina D. Jones
Public Housing Revitalization Specialist
Fort Worth Regional Office, Region VI
Office of Public Housing
801 Cherry Street
Unit #45, Suite 2500
Fort Worth, Texas 76102

RE: FY 2010 SEMAP Rating for Texas Department of Housing and Community Affairs, TX 901

Dear Ms. Jones:

The Texas Department of Housing and Community Affairs (the Department) would like to thank you for completing our Section 8 Management Assessment Program (SEMAP) certification for fiscal year 2010. Listed below is our response to the #13 performance indicator that was rated zero.

Indicator No. 13: Lease-Up

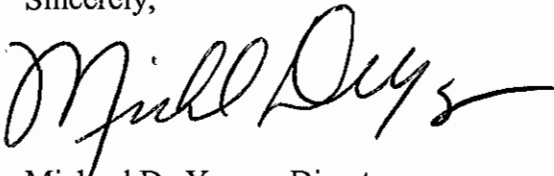
The Department has purged the waiting lists for nine local operator areas. Letters of offer are being mailed to the applicants still interested. Program staff are traveling to the areas to brief eligible applicants, issue housing choice vouchers and assist local operators in leasing contracts. Also, we have reopened the list in two areas that have sufficient housing stock and can administer additional vouchers.

The Department will assess lease up on at least a monthly basis and will aggressively seek opportunities to provide vouchers to ensure compliance with the SEMAP assessment process.

Letter to Ms. Jones
Page 2

Thank you for your continued cooperation. If you have any questions or need additional information, please contact Ms. Willie Faye Hurd, Section 8 Program Manager, at (512) 475-3892.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael De Young", with a long horizontal flourish extending to the right.

Michael De Young, Director
Community Affairs Division

MDY:wfh

cc: Brooke L. Boston, Deputy Executive Director
Willie Faye Hurd, Section 8 Program Manager



U.S. Department of Housing and Urban Development
Fort Worth Regional Office, Region VI
Office of Public Housing
801 Cherry Street
Unit #45, Suite 2500
Fort Worth, TX 76102

April 20, 2011

Willie Faye Hurd
Executive Director
Texas Department of Housing and Community Affairs
P.O. Box 13941
Austin, TX. 78711

RECEIVED
MAY 02 2011
TDHCA SECTION 8

Dear Ms. Hurd:

This office has completed evaluation of your Section Eight Management Assessment Program (SEMAP) certification. We appreciate your time and attention to the SEMAP assessment process. The SEMAP is designed to:

- Assess whether the Section 8 tenant-based assistance programs operate to help eligible families afford decent rental units at the correct subsidy cost;
- Establish a system for the U.S. Department of Housing and Urban Development (HUD) to measure public housing agency (PHA) performance in key Section 8 program areas and to assign performance ratings;
- Provide procedures for HUD to identify PHA management capabilities and deficiencies in order to target monitoring and program assistance more effectively; and
- Provide PHAs with a performance analysis tool to assess and improve their own program operations.

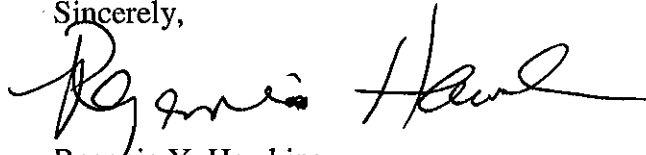
Your score and performance rating is enclosed with this letter. Your overall SEMAP rating is Standard and you may opt to appeal this rating only if such an appeal will result in a rating of High Performer (90% or higher). Within 30 days, you must file your appeal online in Public and Indian Housing Information Center (PIC) SEMAP and mail a hard copy to this office. Appropriate documentation supporting your appeal must accompany the hard copy.

We have recorded that your housing authority has been rated zero on at least one of the performance indicators. Please take the necessary corrective action to ensure compliance with program guidelines. Within 45 days of the date of this letter you must send a written report, describing the action taken, to Regina Jones. If this office does not receive your written response, HUD may require a written Corrective Action Plan (CAP).

Thank you for your cooperation in the SEMAP process. Should you have questions or comments, please contact the following individuals:

Public Housing Information (PIC) System:	Garrett Sauve	817-978-5592
Management/Administration of Section 8	Regina Jones	817-978-5706
SEMAP Process:	Regina Jones	817-978-5706

Sincerely,

A handwritten signature in black ink, appearing to read "Regenia Hawkins". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Regenia Y. Hawkins
Director
Office of Public Housing

Enclosure

The TDHCA final SEMAP score for the fiscal year ended **12/31/2010 is 85**. The following are your scores on each indicator:

Indicator	1	Selection from Waiting List (24 CFR 982.54(d)(1) and 982.204(a))	15
Indicator	2	Reasonable Rent (24 CFR 982.4, 982.54(d)(15), 982.158(f)(7) and 982.507)	20
Indicator	3	Determination of Adjusted Income (24 CFR part 5, subpart F and 24 CFR 982.516)	20
Indicator	4	Utility Allowance Schedule (24 CFR 982.517)	5
Indicator	5	HQS Quality Control (24 CFR 982.405(b))	5
Indicator	6	HQS Enforcement (24 CFR 982.404)	10
Indicator	7	Expanding Housing Opportunities	5
Indicator	8	Payment Standards(24 CFR 982.503)	5
Indicator	9	Timely Annual Reexaminations(24 CFR 5.617)	10
Indicator	10	Correct Tenant Rent Calculations(24 CFR 982, Subpart K)	5
Indicator	11	Pre-Contract HQS Inspections(24 CFR 982.305)	5
Indicator	12	Annual HQS Inspections(24 CFR 982.405(a))	10
Indicator	13	Lease-Up	0
Indicator	14	Family Self-Sufficiency (24 CFR 984.105 and 984.305)	NA
Indicator	15	Deconcentration Bonus	0



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
801 Cherry Street, Unit #45, Ste. 2500
Fort Worth, TX 76102
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RECEIVED
AUG 18 2011
EXECUTIVE DIRECTOR

AUG 16 2011

Mr. Timothy K. Irvine
Acting Director
Texas Department of Housing and Community Affairs
P.O. Box 13941
Austin, Texas 78711-3941

Dear Mr. Irvine:

SUBJECT: Monitoring Report
Homelessness Prevention and Rapid Re-Housing Program

This letter provides the results of HUD's on-site monitoring of the state's Homelessness Prevention and Rapid Re-Housing Program (HPRP) on July 18-22, 2011. The review was conducted by Linda Hadley, Senior Community Planning and Development Representative. The results of the review were communicated to state staff during the exit conference that was held on July 22, 2011.

The purpose of this review was to examine the state's implementation of its HPRP activities, the policies and procedures that it is utilizing, program progress, the eligibility of activities and the oversight of organizations receiving HPRP funding. Our review was conducted using the HPRP Notice published March 19, 2009 and the checklists contained in the Community Planning and Development Monitoring Handbook. The review did not include a financial review of HPRP transactions.

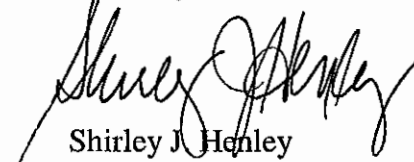
Enclosed you will find the results of our review. Overall, the state's program was very well managed and staff was knowledgeable about the HPRP requirements. The file samples found no instances of ineligible activities. There were no findings identified during the review; however, there was one significant concern with respect to the completion of monitoring letters to your subrecipients.

HUD provided technical assistance to the state's staff in a number of areas. We would like to congratulate your staff for the exemplary technical assistance, training and workshops that were provided to your subrecipients to assist in the implementation of the HPRP Program.

Please extend our appreciation to your staff for their work with this program and their cooperation and assistance during this review. A formal response is not required for the concern noted in the report.

Should you have any questions please contact Linda Hadley, Senior Community Planning and Development Representative, at (817) 978-5957.

Sincerely,



Shirley J. Henley
Director

Enclosure

MONITORING REPORT
Texas Department of Housing and Community Affairs (TDHCA)
Homelessness Prevention and Rapid Re-housing Program
July 18 - 22, 2011

HUD provided Homelessness Prevention and Rapid Re-housing (HPRP) Program funds to the State of Texas – Texas Department of Housing and Community Affairs (TDHCA) in July, 2009. The HPRP is a three year grant program funded under Title XII of the American Recovery and Reinvestment Act (ARRA) of 2009 and was intended to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly re-housed and stabilized.

The purpose of the HUD monitoring was to determine compliance with the HPRP requirements and to make sure that program funds were spent efficiently and effectively. The program areas reviewed during the monitoring were: overall grant management (including program progress and reporting), subrecipient management (including monitoring, financial assistance and stabilization services, eligible participants, and housing). TDHCA awarded HPRP funds to 58 recipients to provide assistance throughout the state. The state's procedures and recordkeeping were reviewed, and an on-site monitoring was conducted of two of TDHCA's subrecipients – Caritas of Austin and Catholic Charities of Central Texas.

Overall Program Management

TDHCA's recipient management process is governed by its *Standard Operating Procedure* manual which included policies for Request for Proposals, Application Reviews, Risk Assessment, Monitoring, Program Sanctions and Contract Closeout procedures. TDHCA provided a contract implementation workshop for all funded applicants to begin the implementation stage of the grants. This workshop was one of 11 workshops and/or webinars that TDHCA provided to its subrecipients during the two-year grant period. We would like to congratulate TDHCA's staff for the exemplary quality of work that was done providing technical assistance and training to its subrecipients through the various workshops and webinars. Staff provided over 11 workshops, webinars and conference calls to the subrecipients since May, 2009.

TDHCA also included in its program management system, policies and procedures for amending contract agreements for subrecipients. This has helped the subrecipients to effectively administer their grants in a timely manner.

TDHCA also performed a risk assessment on each HPRP recipient as part of its management system. The risk assessment determined which subrecipients would receive a full monitoring visit.

Progress

TDHCA utilizes a monthly expenditure tracking system for all its subrecipients. The tracking system includes the original allocation amount, the percentage of funds expended, total payments made and fund balance for each subrecipient. This supplies the program monitors and the management staff with a tool for monitoring progress of each subrecipient.

The HPRP under Title XII of the American Recovery and Reinvestment Act of 2009 mandated that all grantees obligate funds to their subgrantees by September 30, 2009. The Recovery Act also required grantees to expend 60 percent of HPRP grant funds within two years of the date that funds become available to the grantee. TDHCA met both the obligation deadline date and the 60 percent expenditure date (July 24, 2011). As of the date of the monitoring visit, IDIS indicated that the state had expended 81.6 percent of its HPRP grant of \$41,472,772. All 58 subrecipients received a two-year grant which will end on August 31, 2011. All unexpended subrecipient funds will be deobligated at time. The state's allocation procedure after the August 31, 2011 contract expiration date will include a five (5) percent set-aside of program funds for a statewide "Access to Mainstream Services Pilot Program" which promotes the creation of Homeless Prevention Councils in communities that emphasize access to mainstream services for people exiting identified "feeder systems". These funds will be allocated regionally and then awarded competitively within each region. Staff indicated that the subrecipients that are awarded these additional awards will be given a December 31, 2011 expenditure deadline.

The HPRP program mandates that 100 percent of each grantee's funds be expended within three years from the date of the signed grant agreement. TDHCA has until July 24, 2012 to expend all grant funds. The state is anticipating that all funds will be expended by that time.

Reporting

The state is in compliance with all reporting requirements for the program. As mentioned earlier, TDHCA requires monthly and quarterly progress reports and a quarterly expenditure report from all its subrecipients. TDHCA's quarterly report for the period ending June 30, 2011 indicates that HPRP funds assisted **37,825 persons** and **14,830 households** to date. These numbers are expected to increase before the program ends.

Subrecipient Management

TDHCA's management of its subrecipients was reviewed for compliance with relevant parts of Section V, VI, and VII of the HPRP Notice and the Uniform Administrative Requirements at 24 CFR Part 85, which require a grantee to oversee the day-to-day operations of subrecipient activities to ensure compliance with applicable Federal requirements.

TDHCA utilized a boilerplate contract agreement for all subrecipients. Each agreement included a budget as well as all the required components of the HPRP regulations that were applicable to subrecipients. The contract also included the reporting requirements (e.g. a monthly service summary report of all clients, a quarterly performance report, and a quarterly expenditure report, as well as a final expenditure report). This information is used to measure performance and is utilized to submit the state's Quarterly Performance Reports to HUD. The agreements included the HPRP confidentiality and homeless management information system (HMIS) participation requirements, and the reporting requirements provided enough information for TDHCA to adequately monitor progress and compliance. The contracts for the 58 subrecipients will all expire August 31, 2011.

Financial Assistance and Stabilization Services

TDHCA's HPRP Standard Operating Procedures and financial records, as well as 12 client files, were reviewed to ensure that only eligible activities were undertaken and that limitations on the amount of assistance, as identified in Section IV of the HPRP Notice published March 19, 2009, were not exceeded.

Based on the information reviewed, it was concluded that TDHCA used HPRP funds for eligible activities (primarily financial assistance to prevent homelessness and housing case management). There was no evidence that any client received more than 18 months of assistance; more than six months of arrears were paid for any client; subsidy payments were duplicated; or financial assistance payments were made directly to the client.

Program Participants

The two eligible populations for HPRP assistance are persons who are at risk of becoming homeless and those who are already homeless. TDHCA funded both types of eligible populations through its subrecipients. For homeless prevention activities, participants must meet the minimum eligibility criteria listed in Section IV.D.2 and 3 of the HPRP Notice, which includes 1) household income at or below 50 percent of the area median income; 2) at risk of losing housing; 3) no appropriate subsequent housing options identified; and 4) lack of financial resources and support network needed to obtain or remain in housing. Additionally, participants receiving financial assistance must have at least an initial meeting with a case manager or authorized representative for evaluation of the household's needs and to determine the appropriate type of assistance.

Information in the 12 client files at the two subrecipients was reviewed for documentation of eligibility. The four factors listed above were well-documented in those files. Additionally, all client files reviewed included details of at least an initial meeting with a case manager.

Housing

TDHCA's HPRP Standard Operating Procedures manual and the monthly financial records, as well as the 12 client files, were reviewed to ensure that rental assistance paid for housing units did not exceed actual costs and that lead-based paint inspections were completed when required. Additionally, for households moving to a new unit the records were reviewed to determine whether rental assistance met HUD's standard for rent

reasonableness and that habitability inspections were completed. These requirements are found in Sections IV and VII of the HPRP Notice. Our on-site monitoring to the two subrecipients found 3 files with deficiencies regarding the lead-based paint assessments not being completed and 4 files where rent reasonableness was not being compared correctly. These deficiencies will be resolved by TDHCA's monitoring staff. Please notify us when these issues have been resolved.

Based on the information and documentation reviewed, it was concluded that rental assistance paid for housing units did not exceed the actual cost; and that when assistance was provided for new rental units, habitability inspections were completed.

Monitoring

An on-site review was made to two recipients during our visit. They were Caritas of Austin and Catholic Charities of Central Texas. Documents reviewed on-site included client beneficiary (eligibility) documentation, case management documentation, rent reasonableness, lead-based paint assessment, termination policy, habitability standard assessment, the limitation on the maximum months of rental assistance, income documentation and re-certification process. Caritas of Austin had been monitored by TDHCA during the grant year, but not Catholic Charities.

As indicated above, preliminary monitoring was completed on all 58 subrecipients and the risk assessment determined that nineteen (19) subrecipients would receive a full monitoring visit. As of the date of the monitoring visit, nine (9) subrecipients had been monitored and ten (10) were scheduled through September, 30, 2011.

Concern #1: Of the 9 recipients that were monitored, only five monitored letters had been completed and mailed to the subrecipients. TDHCA's *Standard Operating Procedures* indicates that *monitoring reports will be mailed to recipients within 45 days of completion of the monitoring visit and if the review reveals numerous findings or issues, additional time may be needed to finalize the report.* The first 3 monitoring visits exceeded the 45 day deadline by an average of 71 days. Subsequent monitoring letters took approximately 2 additional weeks to be finalized.

Recommendation: We understand that the HPRP program is new and monitoring this program has required staff and management to take additional time to document compliance. However, we recommend that management review its standard and if necessary make adjustments to the monitoring review time.

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation and Discussion of the Status of Prior Audit Issues.

RECOMMENDED ACTION

None, information item only.

BACKGROUND

Of the 64 current prior audit issues:

- 24 issues previously reported as “implemented” were verified and closed by internal audit. These issues are not on the attached list.
- 24 issues were reported by management as “implemented” and are reflected on the attached list. These will be verified and closed by internal audit once we have reviewed the supporting documentation.
 - Community Affairs, Community Services – Issue #: 41, 44, 45, 46, 47, 50, 51, 52, 72
 - Neighborhood Stabilization Program – Issue #: 172, 174, 175, 177, 178, 180, 181, 182, 183, 184, 185, 186, 188, 189, 190
- 6 issues were reported as “in process of implementation”. We will verify and close these issues when they are reported as “implemented”.
 - Community Affairs, Energy Assistance – Issue #: 192, 193
 - Neighborhood Stabilization Program – Issue #: 173, 176, 179, 187
- 10 issues were transferred to the Texas General Land Office with the Disaster Recovery Program. These issues are not on the attached list.

Texas Department of Housing and Community Affairs - Detailed Audit Findings

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
41	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 8/15/2008
Division: Community Affairs			Px	12/01/08 3/31/2009
Section: Community Services - CSBG			Ix	06/15/09

Issue: Chapter 3-A:
Inconsistencies in the Disposition of Monitoring Issues Should Be Addressed

We reviewed the monitoring files for fiscal years 2006 and 2007 for a sample of five subrecipients and found that there were inconsistencies in how errors were identified and categorized by the program officers who monitor the subrecipients. The program officers document the issues they identify during on-site monitoring visits in one of three ways: findings, recommendations or notes. Findings identify actions that do not comply with grant requirements and must be addressed by the subrecipient and resolved to the satisfaction of Community Services. Recommendations are preferences suggested by Community Services, but do not necessarily require a change in the subrecipient's procedures. Notes are used to document a condition, but do not include a recommendation for resolution.

There are inconsistencies in the assignment of the status of findings, recommendations or notes. For example, the CSBG does not allow the payment of late fees using grant funds. For one subrecipient we reviewed, the payment of late fees was reported as a finding. For another subrecipient, it was not reported at all. Prior findings identified during a previous on-site monitoring visit that were still outstanding during the next on-site monitoring visit were reported as a finding for one subrecipient, and as a note for another.

Recommendation
Community Services management should provide program officers with a guide for the designation and disposition of common issues to generate more consistent reporting.

Status:

- 06/15/09 - Staff has developed a Monitoring Guide which includes standard language for common monitoring issues. The Monitoring Guide was reviewed by Energy Assistance Section, Community Services Section, and Portfolio Management and Compliance Division. Program officers received training May 14, 2009 on the Monitoring Guide. The Texas Administrative Code was revised to include the definition of a finding, recommendation and note. The Monitoring Guide is currently being reviewed by Executive Management.
- 12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management and Compliance Division. Annually, program officers will receive training on the Monitoring Guide.
- 06/11/08 - Management will develop a uniform definition for what constitutes a Finding, a Recommended Improvement and a Note that will be included in a Monitoring Guide Book for monitoring that outlines standard language for most commonly identified issues. The Project Manager for Monitoring will provide training to the Program Officers prior to each monitoring cycle to ensure a clear understanding of the Monitoring Guide Book. During the review of draft monitoring reports, the Project Manager will ensure adherence to the Monitoring Guide Book.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
44	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 9/30/2008
Division: Community Affairs			Px	12/01/08 5/31/2008
Section: Community Services - CSBG			Ix	06/15/09

Issue: Chapter 3-D
Monitoring Reports Need to Be Completed on a Timely Basis

Community Services' monitoring policies and procedures require that subrecipients receive a written monitoring report within 30 days for CSBG on-site monitoring visits or within 45 days for joint CSBG and Comprehensive Energy Assistance Program (CEAP) on-site monitoring visits. For the 31 on-site monitoring visits performed in fiscal year 2007, 18 reports (58%) were not sent out within the required timelines. The subrecipients are required to respond to the monitoring findings within 30 days, or 45 days for joint monitoring visits. If additional responses are needed, the subrecipient has 15 days to submit their follow-up responses. However, these responses are often not received for months.

For the 31 on-site monitoring visits performed in fiscal year 2007:

- One notification letter was not sent to the subrecipient, and 11 of the 31 required notification letters were sent late (35%) and did not provide the suggested 30 days notice prior to a monitoring visit;
- Review of the report was not documented on a review coordination sheet for five of the 31 visits (16%); and
- Twelve of the 31 reports (39%) were not sent to the subrecipients' governing boards as required.

Recommendation

Community Services' policies and procedures should be reviewed, revised and followed to ensure that monitoring reports are timely, are reviewed internally and are communicated to the subrecipients' governing boards as required.

Status:

- 06/15/09 - Staff developed a Monitoring Guide which includes standard language for common monitoring issues. Staff finalized the Monitoring Guide May 2009. The Guide thoroughly addresses documentation standards. The Monitoring Guide was reviewed by Energy Assistance Section, The Community Services Section, and Portfolio Management and Compliance Division. Community Services monitoring tracking system was updated to allow staff to enter the contract numbers. Additional modifications to that system are still needed. Program officers received training on the Monitoring Guide in May 2009. Monitoring procedures have been revised to allow 45 days. Instead of 30 days for the Department to issue the monitoring report and 45 days for the subrecipient to respond. Energy Assistance and Community Services will continue to work with Information Systems to modify the monitoring tracking systems so that more useful reports such as tracking deadlines are developed.
- 12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. The Guide will more thoroughly address documentation standards. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management' and Compliance Division. The Monitoring Tracking System will be updated to generate more useful reports to alert staff about approaching deadlines. Information Systems anticipates modifications to be completed 5/31/09. Annually, Program officers will receive training on the Monitoring Guide. Monitoring procedures have been revised to allow 45 days, instead of 30 days for the Department to issue the monitoring report and 45 days for the subrecipient to respond.
- 06/11/08 - Management will review and revise the Monitoring Standard Operating Procedure to more thoroughly address the recommendations in regards to timeliness of reports and correspondence, documentation of internal reviews, and communication with subrecipients' governing boards. Consistency between policies will be improved and controls will be put in place to ensure these processes are followed. Additionally, the existing monitoring tracking system will be updated to generate more useful reports to alert staff about approaching deadlines.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
45	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 9/1/2008
			Px	12/01/08 3/31/2009
			Ix	06/15/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-E
All Program and Expenditure Requirements Need to Be Reviewed During Monitoring Visits

Generally, all program and expenditure requirements are considered during on-site monitoring visits. However, we compared the contract, rules, grant requirements and monitoring instruments used by the program officers during on-site monitoring visits and noted the following issues:

- One of the questions on the monitoring instrument, "Does the subrecipient maintain procedures which conform to the uniform administrative requirements?" has "not applicable" for the CSBG program. However, the CSBG contract states, "Except as expressly modified by law or the terms of this contract, subrecipient shall comply with the cost principles and uniform administrative requirements set forth in the Uniform Grant Management Standards, 1 T.A.C. Sec. 5.141 et seq."
- The monitoring instrument does not prompt program officers to ensure that the expenditures submitted by subrecipients as support for costs are expenditures that were incurred during the contract period. Section 4 of the contract states that the "Department is not liable to Subrecipient for any cost incurred by Subrecipient which is not incurred during the Contract period."
- A review is not performed to determine if the subrecipient's board-approved travel policies were provided to Community Services prior to the subrecipient incurring travel costs.
- Program officers do not review to ensure that the programs and services listed in the subrecipients' CAP plan are actually provided.
- There is no standard form for the program officers to use in documenting the results of their expenditure review.

Recommendations

Program officers should review programs and expenditures during on-site monitoring visits to ensure that subrecipients are complying with the Uniform Grant Management Standards, costs are incurred during the contract period, and subrecipients are providing the programs detailed in their CAP plan.

The program officers should ensure that subrecipient's board-approved travel policies are provided to Community Services prior to incurring any travel costs.

A standard form should be developed to document the results of the expenditure review

Status:

- 06/15/09 - Section 6A of the 2008 ESGP contract has been revised to include reference to the Uniform Grant Management Standards (UGMS) and to address inconsistencies in references. The monitoring instruments were revised to address time period of expenditure reviews. Management will institute controls to ensure that the monitoring instrument is properly completed. 10 TAC §5.2 was codified in March 2009, and states that subrecipients must comply with UGMS and the OMS circulars Subrecipients were requested to submit a current board approved travel policy and are on file.
- 12/01/08 - Section 6A of the 2008 ESGP contract has been revised to include reference to the Uniform Grant Management Standards (UGMS) and to address inconsistencies in references. The monitoring instruments will be revised to address time period of expenditure reviews. Management will institute controls to ensure that the monitoring instrument is properly completed. The Texas Administrative Code Rules 10 TAC §5.2 which will be codified in January 2009 state that subrecipients must comply with UGMS and the OMS Circulars. Subrecipients will be requested to submit a current board approved travel policy by 3/31/09.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
06/11/08 -		<p>Management acknowledges inconsistencies in the CSBG and ESGP contracts and the corresponding monitoring instruments. The current contracts reference the Uniform Grant Management Standards (UGMS) and the Office of Management and Budget (OMB) Circulars and the monitoring instruments only reference the OMB Circulars. Management will update the contracts and monitoring instruments to include references to UGMS and the OMB Circulars.</p> <p>The Department will continue to review the monitoring instrument and consider strengthening the review process. The monitoring instrument will be revised to indicate that expenditures reviewed are within the contract period and other changes to the instrument made so that wording of questions better addresses risks and that appropriate follow up occurs for questions. Staff will be trained on the instrument and its changes. Further, controls will be put in place to ensure the monitoring tool is being properly completed (i.e. peer reviews or similar solution.)</p> <p>Management will request a board-approved travel policy from each CSBG subrecipient to maintain in an electronic file at the Department. If a subrecipient changes their travel policy, the subrecipient will be required to submit a new policy to the Department. A standard form, or similar effective tool, will be developed to document the results of the expenditure review.</p>

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
46	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 10/31/2008

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-F
The Monitoring Tracking System and the Risk Assessment Process Should be Updated and Improved

All subrecipients are required to have an on-site monitoring visit at least once every three years, and Community Services does a good job of ensuring that these reviews take place. Community Services uses a risk assessment process to determine which subrecipients to monitor each year. They use the Department's standard risk assessment module and rely on an automated monitoring tracking system to track the number, type, and status of findings reported as a result of on-site monitoring visits. The information from the monitoring tracking system is used to complete the risk assessment module. However, the monitoring tracking system is not being kept up to date. As a result, the system can not be relied upon in completing the risk assessment process, and staff must manually go through monitoring reports to determine the information they need for the risk assessment. In addition, the risk assessment does not capture all of the information needed to accurately determine risk.

In comparing the information contained in the monitoring tracking system to the information gathered from manually reviewing monitoring reports and responses, of the 65 on-site monitoring visits performed over the past two years:

- The information contained in the system matches the information in monitoring reports and responses for 16 visits (24.6%),
- The information contained in the system is incomplete when compared to the monitoring reports and responses for 34 visits (52.3%) and inaccurate for one visit, and
- There is no record of 14 monitoring visits (21.5%) in the monitoring tracking system.

Of the 453 questions answered in the 2006 risk assessment, 83 questions (19.6%) were answered incorrectly or not at all. In addition, the possible answers to the risk assessment questions do not provide an accurate assessment of which subrecipients pose the highest risk. For example:

- A subrecipient with one previous monitoring finding currently receives the same ranking as a subrecipient with multiple findings on a previous monitoring report.
- A subrecipient that has never been monitored is currently ranked higher for the question 'time since last on-site visit', but is rewarded by receiving no points for the questions 'results of last on-site visit' and 'status of most recent monitoring report.'
- A subrecipient can be delinquent in providing their audited annual financial report to the Department for multiple months, but if they are in compliance on the day the risk assessment is completed, they are ranked the same as an entity who was in full compliance with the audit requirement throughout the year.

Recommendations

Community Services should:

- Revisit the use of the monitoring tracking system for tracking the findings resulting from on-site monitoring visits. This should be done before additional resources are spent in improving or maintaining the current system. If the monitoring tracking system is used, Community Services should develop processes to ensure that data entered into the system is complete and is periodically compared to the data in the monitoring files
- Develop a process or a database that will track the data used in the Department's risk assessment module, and
- Further develop answers to the questions in the risk assessment in order to produce a more accurate risk ranking of the subrecipients.

Px	06/11/08	10/31/2008
Px	12/01/08	5/31/2009
Dx	06/15/09	
Dx	09/21/09	
Nr	03/01/10	
Px	07/13/10	12/31/2010
Px	10/28/10	12/31/2010
Px	01/10/11	2/28/2011
Ix	04/21/11	

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>
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Status:

- 04/21/11 - The Monitoring Tracking Database has been implemented and is being used by all Community Services monitoring staff. This Database provides Program Officers and management the ability to update and track the status of monitoring visits, findings, reports, and responses. As previously noted, the Information Systems Division has determined that the existing database and risk assessment will not be able to be used as intended. The CS Section has modified a monitoring tracking system used by the Community Affairs Division Energy Assistance Section to meet CS needs. The Risk Assessment has been modified to take the IA concerns into account.
- 01/10/11 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessment will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department. Community Services will modify a tracking system developed by CAD/Energy Assistance Section. Once it is modified to meet CS needs, the data related to the monitoring of CS contracts will be entered. The system is an Access based database. This database is in the final stages of completion, however due to a family emergency, the staff member responsible for implementation of this task was out for three weeks and unable to complete on schedule. Barring further unexpected obstacles, this task will be completed by 2/28/2011.
- 10/28/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessment will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department. Community Services will modify a tracking system developed by CAD/Energy Assistance Section. Once it is modified to meet CS needs, the data related to the monitoring of CS contracts will be entered. The system is an Access based database. This database should be modified to meet CS needs by 12/31/2010 and thereafter monitoring data will begin to be entered into the system.
- 07/13/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessment will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department. IS staff has also recommended not modifying what had been developed. Community Affairs Community Services will work with IS on this project once other pressing IS/CACS projects are finalized and IS has time available to determine what system can be developed to assist with the Risk Assessment. Community Services is considering developing either an Access or Excel database to manage data for the Risk Assessment and not relying on the IS database.
- CS is in the process of entering monitoring data related to monitoring reviews and anticipates completing this by 12/31/2010. CSBG Program Officers have also had additional work related to the CSBG ARRA program. CSBG ARRA contracts will end 9/30/2010.
- 03/01/10 -
- 09/21/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed, The IS Division is currently working on projects assessed as higher priority to the Department.
- 06/15/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed. The IS division is currently working on projects assessed as higher priority to the Department. The IS division has set the incorporation of the American Recovery and Reinvestment Act contracts and reporting mechanism into the current Community Affairs contract system as a high priority.
- 12/01/08 - The Information Systems Division has made modifications to the Monitoring Tracking System but additional modifications are needed and will be completed by 5/31/09.
- 06/11/08 - The CA Division in conjunction with the IS Division will revisit and update the monitoring tracking system that tracks monitoring findings. A CS staff member, who is not required to travel, will be designated to maintain the monitoring tracking system. The existing monitoring tracking system tracks data used in the Department's Risk Assessment Module. Management will ensure that data is entered in a timely manner.
- Prior to the 2008 Risk Assessment, questions and weights were revised to reflect a more accurate risk ranking of the subrecipients. The Risk Assessment will continue to be evaluated and improved.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
47	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 10/1/2008

Division: Community Affairs

Section: Community Services - CSBG

Px 06/11/08 10/1/2008
Px 12/01/08 3/31/2009
Ix 06/15/09

Issue: Chapter 4-A
Community Services Should Review Underlying Data to Ensure That Performance Measures are Correct

Program officers are not required to review the supporting documentation (or even the supporting documentation for a sample of clients) to ensure that the subrecipients are correctly reporting the number of individuals transitioning out of poverty. This number is defined as the number of individuals achieving incomes above 125% of the poverty level.

Four out of the nine LBB performance measures for Community Services use this data in their calculations and of these four, three are key measures for the Department.

The number of individuals transitioning out of poverty is important because it is used as part of both the ROMA and the LBB performance measures, and is used to determine the amount of discretionary funds paid to subrecipients in the form of performance awards. (see Chapter 4-B) The definitions and methods of calculation for this measure do not require the Department to verify the data submitted by the subrecipients; however, the LBB's performance measures guidance requires the Department to have sufficient controls in place to ensure the accuracy of the data. Without the control of testing or verifying at least a sample of the underlying data, it is not possible for the Department to ensure that the data is accurate.

Recommendations

- When reviewing a sample of client files during monitoring visits, program officers should re-calculate the reported incomes using the supporting documentation in the client file to confirm that clients who were reported as transitioning out of poverty really did so, and that only allowable income is considered.
- Community Services should develop and enforce a standard methodology for calculating income to ensure consistent and comparable results.

Status:

- 06/15/09 - The CSBG monitoring instrument was revised in May 2009 to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients. A new attachment was created for the review of CSBG case management files and to review income documentation for households transitioned out of poverty.
- 12/01/08 - The CSBG monitoring instrument will be revised to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients.
- 06/11/08 - The current process will be reviewed by Management and the Community Services Block Grant monitoring instrument will be revised to clarify the verification of the allowable income of clients that transitioned out of poverty and other CSBG clients.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
50	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 1/1/2010

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 5-A
Only Eligible Administrative Costs Should Be Charged to the Emergency Shelter Grant Program

Currently, all work performed by the ESGP staff is charged to the grant. This means that staff is charging the time they work on developing the Consolidated Plan to the ESGP's administrative funds. However, the U.S. Department of Housing and Urban Development (HUD), which administers the ESGP, states that ineligible administration costs include the preparation of the Consolidated Plan and other application submissions.

The Consolidated Plan serves as the state's application to the federal Government for ESGP funds. The plan states how the Department will pursue the goals of decent housing, a suitable living environment and expanded economic opportunities for all community development and housing programs.

Recommendation

The Department should find an alternate fund to which staff can charge the work performed on the Consolidated Plan.

Status:

- 12/01/08 - Staff has changed the process for allocating staff time associated with the HUD Consolidated Plan whereby ESGP funds are not charged for preparation of the Plan.
- 06/11/08 - The Department will utilize an eligible source of funds to develop the Emergency Shelter Grants Program portion of the 5 Year Housing and Urban Development Consolidated Plan, which includes work on the Annual Action Plan and Consolidated Annual Performance Evaluation Report (CAPER). CS staff will allocate time related to the development of the 5 Year HUD Consolidated Plan to an eligible source of funds.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
51	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 9/1/2008

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 5-B
The Methodology Used for Subrecipient Payments Should Ensure Consistency and Compliance with the Contract

The ESGP contract states that the subrecipient may request advance payment by submitting a properly completed monthly report to the Department. According to the HUD ESGP Program Guide, either cost reimbursement or advance payments can be used, depending on how the funds are handled. The CFR (24 CFR 85.20) states that, "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used." Program staff state that the program is set up on a cost reimbursement basis and advance payments are not made. However, a review of one subrecipient indicates that they are making cost projections and receiving advance payments.

Recommendation

The Department should review the requirements and benefits of both the advance payment and cost reimbursement methodologies and determine which one to use. The contract and other written guidelines should be revised to ensure consistency with the chosen method.

Status:

12/01/08 - The 2008 ESGP contract was revised to only allow a one time advance payment.

06/11/08 - Management will review and ensure that the language in the Emergency Shelter Grants Program (ESGP) contract is consistent with the Housing and Urban Development ESGP Program Guide that allows for either cost reimbursement or an advance method of payment. A set of risk criteria will be established, and the payment method allowed for each subrecipient will be based on the level of risk. Staff will be trained to use the risk criteria to determine the appropriate method of payment for an ESGP subrecipient.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
52	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08 12/31/2008
			Px	12/01/08 3/31/2009
			Ix	06/15/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 6-A
The Processes Used to Document and Communicate Monitoring Results Should Be Revised

There are inconsistencies in the manner in which program officers determine which issues are identified as findings and reflected in the final monitoring report and which issues are resolved on-site by the program officers via technical assistance and are not reflected in the report. During a review of the monitoring reports and monitoring instruments of multiple subrecipients, the same issue was reported as a finding in one report, while in another report it was documented as a recommended improvement. Recommended improvements do not require the subrecipient to respond to Community Services on how the issue will be corrected. Also, instances were noted where an issue was documented as a finding on the original monitoring instrument and then changed to a recommended improvement without documenting the reasons for the change.

The program officers who monitor the ESGP subrecipients complete a standard monitoring instrument during on-site monitoring visits. However, the monitoring instrument is not always entirely completed, nor is the monitoring information correctly posted to the monitoring tracking system.

We tested the monitoring files for 26 of the 76 subrecipients in program year 2006 and found that:

- three of 26 the subrecipient files did not contain any monitoring documents for the program year 2006 monitoring visit,
- 12 of the 23 subrecipient files for which documentation of a program year 2006 monitoring visit was available, did not have the monitoring instrument fully completed by the program officer during the monitoring visit,
- 13 of the 26 ESGP monitoring files were not posted to the monitoring tracking system and an additional 6 were not posted correctly, and
- 19 of the 26 monitoring files did not contain a cumulative inventory report, which is required by the ESGP contract and should be submitted to Community Services by October 31st.

The ESGP policies and procedures require that the monitoring reports be sent to the subrecipients within 30 days of the monitoring visit, and that the subrecipients provide written responses to the findings within 30 days from the date of the report. If additional responses are needed, the subrecipients have 15 days to submit their follow-up responses. Follow-up letters requesting additional responses must be sent within 30 days from the date of the original monitoring response, or, if no additional responses are needed, the letter sent to close out the monitoring report must be sent within 30 days of the date of the responses.

- 16 of the 23 subrecipient monitoring files did not contain evidence that the monitoring reports were sent to the subrecipient on a timely basis,
 - six of the 23 subrecipients did not submit their monitoring responses within the required 30 days,
 - three of the 6 subrecipients who were required to submit additional responses did not submit the additional responses within the required 15 days, and
 - 11 of the 23 subrecipient monitoring files tested indicated that the follow-up or closeout letters were not sent within 30 days as required.
- Four of the 23 subrecipient files did not have close out letters in the file, so it is unclear whether these monitoring reports were closed.

Recommendation

Community Services should develop processes to ensure that:

- Program officers are consistent in determining what issues are identified as findings and what issues are identified as recommended improvements,
- Monitoring files contain support for monitoring visits,
- Monitoring instruments are properly completed,
- Information entered into the monitoring tracking system is verified against the information in the monitoring files, and
- Correspondence and reports are sent to subrecipients on a timely basis.

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Status:

- 06/15/09 - Staff has developed a Monitoring Guide which includes standard language for common monitoring issues. Monitoring Guide was reviewed by Energy Assistance Section, Community Services Section, and Portfolio Management and Compliance Division. Program officers received training May 14, 2009 on the Monitoring Guide. The Texas Administrative Code 10 TAC §5.16 was revised to include the definition of a finding, recommendation and note. Monitoring Guide is being reviewed by Executive Management. Procedures for support documentation have been revised to ensure that monitoring files are complete and that monitoring instruments are properly completed. Monitors are required to verify information entered into the monitoring tracking system coincides with information in the monitoring files. Monitors will be required to send correspondence and reports to subrecipients on a timely basis.
- 12/01/08 - Monitoring staff have developed a draft Monitoring Guide which includes standard language for common monitoring issues. The Program officers received training on the Monitoring Guide and for what is considered a finding, recommended improvement, a note, and standard language for common findings. Staff will finalize by 3/31/09. Additionally, the draft Monitoring Guide will be reviewed by Energy Assistance Section and Portfolio Management and Compliance Division.
- 06/11/08 - 06/11/08 - Management will develop a uniform definition for what constitutes a Finding, a Recommended Improvement and a Note that will be included in a Monitoring Guide Book that outlines standard language for most the commonly identified issues. The Project Manager for Monitoring will provide training to the Program Officers prior to each monitoring cycle to ensure a clear understanding of the Monitoring Guide Book. During the review of draft monitoring reports, the Project Manager will ensure adherence to the Monitoring Guide Book. The CS Project Manager for Monitoring, responsible for ESGP, will provide training to Program Officers to ensure that monitoring files contain adequate support documentation and monitoring instruments are properly completed.

The CA Division in conjunction with the IS Division will revisit and update the monitoring tracking system that tracks monitoring findings. A CS staff member, who is not required to travel, will be designated to maintain the monitoring tracking system.

Management will provide training and oversight to ensure that staff adheres to the existing Monitoring Standard Operating Procedure in regards to timeliness of reports and correspondence, documentation of internal reviews, and communication with subrecipients' governing boards. The existing monitoring tracking system will be updated to generate more useful reports to alert staff about approaching deadlines.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
72	6/11/2008 Internal Audit	Audit of the Community Services Block Grant and Emergency Shelter Block Grants Review of the draw processing and monitoring functions of the Community Affairs Division's	Px	06/11/08

Division: Community Affairs

Section: Community Services - CSBG

Px	06/11/08	
Px	12/01/08	5/31/2008
Ix	06/15/09	

Issue: Chapter 8
There are Advantages and Disadvantages in Changing the Organizational Structure to Separate the Monitoring and Program Support Functions

The program officers who monitor the subrecipients in both CSBG program and ESGP also provide technical assistance to the subrecipients. Technical assistance is provided when the program officer offers advice or suggestions to help improve the subrecipient's operations. Frequently this technical assistance takes place during on-site monitoring visits. Program officers are assigned a group of subrecipients to monitor and these assignments are rotated every three years. The program officers report to a manager who is directly accountable to the director of the Community Affairs Division. The director of Community Affairs is responsible for not only the monitoring of these programs, but for the performance of the programs, too. This model has several advantages and disadvantages.

The advantages are:

- An ongoing working relationship is developed between the subrecipient and the program officer that allows the program officer to become familiar with the operations and the needs of the subrecipients assigned to them,
- Program officers can identify the subrecipients' training needs and work with the trainer assigned to their program to ensure that the subrecipients get the training they need,
- Program officers can develop subject matter expertise in the CSBG program or ESGP, and
- The director of the Community Affairs Division is responsible for all aspects of the programs in the division and can more easily be held accountable for them.

The disadvantages are:

- There is a risk that managers or program officers could be inclined to identify issues as technical assistance or training needs rather than monitoring findings
- Program officers may develop relationships with subrecipients that could contribute to the risk of favoritism, and increase the potential for fraud, waste or abuse,
- The line between training needs and compliance with the laws and rules governing the administration of the grant funds is not clear,
- In the case of CSBG, technical assistance is not currently an allowable cost for the administration funds that pay the program officers' salaries (see Chapter 1-A),
- The director of the Community Affairs Division may not be willing to bring issues with subrecipients forward to executive management or the Department's governing board because they are responsible for the success of the grant programs, and
- The program officers may not have easy access to information gathered by other divisions within the Department, for example, the Portfolio Management and Compliance (PMC) Division (see Chapter 3-B.)

The Department's PMC Division is responsible for monitoring most of the Department's other programs. Combining the Community Affairs Division's program officers' monitoring function with the PMC Division's would have the following advantages:

- Separating the goals of program support and technical assistance from monitoring,
- Decrease the opportunity for collusion, or other types of fraud, waste and abuse, and
- Decrease the number of monitoring visits by coordinating monitoring visits for multiple programs with each subrecipient.

Recommendation

The Department should evaluate the functions and activities of the program officers and other staff of the Community Affairs Division and decide whether to move the monitoring function to another division, or to put into place safeguards to ensure the consistency of monitoring and decrease the potential for collusion or other types of fraud, waste and abuse.

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Status:

- 06/15/09 - Safeguards have been implemented through the revision of TAC rules, the development of a monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse.
- 12/01/08 - Safeguards have been implemented through the revision of the TAC rules. the development of a draft monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse. The CA Division Director will continue to work with the Executive Team to evaluate the effectiveness of the monitoring function in the Community Affairs Division.
- 06/11/08 - Management will evaluate the functions and activities of the program officers and other staff of the Community Affairs Division and decide whether to move the monitoring function to another division, or to put into place additional safeguards to ensure the consistency of monitoring and decrease the potential for collusion or other types of fraud, waste and abuse.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
172	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 5/30/2011

Division: Neighborhood Stabilization

Section:

Issue: Three NSP quality assurance specialists in Program Services have both level one and level two authorities to approve activity setup, amendments, and draws. This means that the quality assurance specialist could enter an activity into the Housing Contract System and also approve the same transaction. Separating responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets will help mitigate the risk of errors and irregularities and assist in safeguarding assets.

Recommendation:

NSP should ensure individuals who enter activities into the Housing Contract System do not also have the authority to approve the transactions that they set up.

Status:

08/17/11 - On February 1, 2011, Program Services revised SOPs to delineate PM2 roles as the only roles available to Quality Assurance staff.

On February 24, 2011, Information Systems (IS) adjusted PM1 and PM2 roles in the Housing Contract System (HCS) to ensure that no TDHCA NSP staff member could possess a Quality Assurance (PM2) role. Therefore, TDHCA NSP staff members who enter activities in HCS no longer have the possibility of authority to approve the transactions they set up.

On August 1, 2011, the final step in the resolution of this finding was completed through the execution of NSP SOPs for draws and set-ups. Please note that it did not take until July to revise these SOPs; working versions (which clearly delineated PM1 only roles for NSP staff) were created, routed through NSP and QA staff, revised again and finally presented to NSP staff as a group on 08/01/2011. These SOPs maintain the separation of PM1 and PM2 duties and ensure that HCS approval roles will not overlap again.

04/22/11 - On February 28, 2011, Information Systems (IS) completed the first step in the resolution of this finding by adjusting the PM1 and PM2 roles in the Housing Contract System (HCS) to ensure that no TDHCA NSP staff member currently possesses a Quality Assurance (PM2) role. Therefore, NSP staff members who enter activities in HCS do not also have the authority to approve the transactions they set up. NSP will maintain separation of duties by ensuring that staff who enter activities do not also have the authority to approve the transactions they set up. With the completion of the first-step involving corrections to current assigned roles in HCS, the second and final step is to revise existing SOPs to ensure that HCS approval roles do not overlap again. The final step will be completed by May 30, 2011.

04/08/11 - Management concurs. Overlap of authority in the Department's dual approval authority has occurred in the Program Services Division as a result of the administration of another program. Management will ensure that the separation of duties for the entry and approval of draws and set-ups in the Housing Contract System (HCS) are re-established and staff duties reassigned to restore checks and balances by March 31, 2011. Management will review and edit existing draft SOPs concerning HCS procedures or new SOPs will be created to ensure that these roles do not overlap again. The applicable SOPs will be developed and finalized by May 30, 2011.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
173	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 5/31/2011

Division: Neighborhood Stabilization

Section:

Px	04/08/11	5/31/2011
Px	04/22/11	5/30/2011
Px	08/17/11	

Issue: NSP does not have an established mechanism in place to track key elements of the program including contract milestone thresholds, cumulative budget transfer amounts, and homebuyer loan files. Although the NSP Technical Guide states that the Department will evaluate compliance with contractual obligations to ensure progress toward meeting benchmarks, NSP is not consistently tracking the subgrantee's milestones. Subgrantees are not always meeting their milestones. HUD requires grantees to obligate and expend funds in an expeditious manner and HUD has imposed a deadline for expending grant funds. In one instance, the subgrantee should have expended 30% (\$600,000) of its demolition obligation by May 31, 2010 and 30% (\$153,397) of its purchase and rehabilitation obligation by August 31, 2010. As of January 10, 2011, all the contract activities entered in the Housing Contract System for this subgrantee are still in pending status. The subgrantee has not drawn any funds to support meeting the 30% expended funds. This is significant because if the NSP fails to expend the grant funds within the established timelines, the funds will be recaptured by HUD, the subgrantees' geographic area will not be served, and the Department may not achieve the program objectives. NSP is also not formally tracking incremental budget transfers. The NSP contract with subgrantees indicates that there is a 10% budget transfer ceiling. Transfers above 10% require an amendment or written authorization from the Department. Transfers above 25% require approval of the Department's governing board. When the cumulative amount of budget transfers is not monitored, program specialists and management may not identify incremental budget transfers that exceed the allowable limits and may neglect to obtain the appropriate level of approval.

There is no centralized mechanism to track the progression of homebuyer loans through the inter-divisional, multi-step closing process. Individuals involved in NSP loan processing have developed their own tools to track these loans.

NSP does not have a system or report that captures the entire population of NSP transactions. No single resource can be used to determine the status of the program or to review complete information about a specific transaction.

If NSP does not sufficiently monitor these key elements, there is an increased risk that the program may not stay on track and that the program objectives will not be completely achieved. Missed milestones could result in the loss of funding. Budget transfers could exceed the 10% ceiling, which may prevent the amendment from receiving approval as required. Homebuyer loan files could fall through the cracks and result in delayed closings or unnecessary re-work.

Recommendations:

NSP should:

- Establish a system for tracking key program elements,
- Ensure grant funds are expended within the program guidelines and within the program timeframe, and
- Monitor contract milestone thresholds, cumulative budget transfer amounts, and the status of homebuyer loan files.

Status:

08/17/11 - Systems for tracking the key program elements of homebuyer loan files, contract millstones and cumulative budget transfer amounts have been established. While NSP Management, Program Specialists and other staff will continue to have roles as defined by the appropriate SOPs for tracking key program elements, the NSP plans to add an Information/Database Specialist to the team who will be charged with maintaining various systems and databases including the ongoing reconciliation of the Housing Contract System (HCS) with the Disaster Recovery Grant Reporting (DRGR) system.

An online system to track loan approval stages went live on 06/3/2011. This database may be found on the Department's website (<http://www.tdhca.state.tx.us/closing-status/index.htm>). All current NSP homebuyer loans are entered as of 08/17/2011. Data entry to database was determined to be self-explanatory and an SOP was not created.

A spreadsheet to track contract milestones was finalized and distributed to staff on 08/17/2011. This spreadsheet will track the future progress and milestone accomplishments of all NSP contracts. Although data entry to the spreadsheet was determined to be self-explanatory and an SOP was not created, the process was relayed to staff on 08/17/2011.

The NSP Amendments and Modifications SOP was made effective and presented to staff on 08/1/2011. A newly created form, the NSP

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>
		Budget Amendment/Modification form, was incorporated into the SOP to cumulatively track the key program element of budget transfers moving forward.
04/22/11 -		Program Services is working to complete the reconciliation of the Housing Contract System and DRGR, at which point a baseline tracking system will be established. The tracking system will track key program elements to ensure that milestones are met, loan documents are tracked and cumulative budget transfers are accurately processed. These processes will be incorporated into an SOP.
04/08/11 -		Management concurs. Management will establish a system for tracking key program elements and formally incorporate the procedures into an SOP by May 31, 2011 in order to better track subrecipient performance and compliance. Management will prepare a budget transfer reconciliation report for the May 2011 TDHCA Board meeting and request, if necessary, authorization for any already identified transfers at that meeting and will establish a more uniform process to manage cumulative budget transfers by May 31, 2011.

174	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	<u>Status</u>	<u>Target Date</u>
			Px	04/08/11 8/31/2011
			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: NSP does not have detailed policies and procedures. The limited number of written policies and procedures NSP does have are all in draft form and have not been formally communicated to staff including SOPs for contract amendment requests, draw requests, set-up requests, contract administration, mortgage loan financing, home buyer assistance loans, and obtaining credit reports. Additionally, draft SOPs have not been formally communicated to staff. Without finalizing and formally communicating policies and procedures to the NSP staff, staff may not be performing their job duties as intended by management. NSP management's finalization of the policies are necessary to ensure that all program specialists are performing their duties in accordance with standardized instructions, that program specialists perform their duties consistently and effectively, and that risks are mitigated.

Recommendation:

NSP management should finalize, communicate, and monitor compliance with the program's written policies and procedures.

Status:

08/17/11 - On August 1, 2011, after rounds of revisions and input from NSP and Quality Assurance staff, NSP SOPs for Draws, Set-ups, and Amendments/Modifications were formally presented to NSP staff and made effective. The SOP for Loan Procedures was formally presented to NSP staff and made effective on 08/17/2011.

The NSP Management Oversight SOP was developed, presented to staff and made effective on 08/17/2011 in order to ensure compliance with the program's written policies and procedures as represented by the four aforementioned SOPs.

04/08/11 - Management concurs. Management will reevaluate the four existing draft SOPs, edit or create new SOPs as appropriate and finalize and communicate the SOPs to staff by May 30, 2011. Management will provide training on the SOPs for staff once they have been finalized. Management will establish a process for periodic sampling and testing to ensure compliance with written policies and procedures by August 31, 2011.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
175	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 5/30/2011
			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Pertinent information is not always effectively shared among NSP staff and with others that support the program. Communication between NSP and the subgrantees also appears to be challenged. Subgrantees commit to move-in dates and deadlines with prospective homebuyers without consulting the Department. As a result, NSP and the Legal Division are often rushing to meet deadlines they did not set. This process puts undue pressure on the Department's staff to complete work under unreasonable timelines and increases the risk of errors or omissions.

Other barriers to effective communication and information sharing include:

- Regular NSP team meetings are not conducted,
 - Policies and procedures have not been finalized and communicated to staff, and
 - The NSP Program Manager possesses significant program knowledge that is not documented or communicated to staff.
- There is a general feeling from other divisions in the Department that communication with the NSP staff is not always as effective as it could be. Effective communication supports all the other control components by communicating responsibilities to employees and by providing information in a form and timeframe that allows employees to carry out their duties effectively. If staff is not adequately informed, they may be unable to fulfill their duties and the program may be impacted.

Recommendation:

Communication within NSP and with other key stakeholders should be enhanced. NSP should:

- Instruct subgrantees to communicate with the Department prior to setting deadlines for move-in with homebuyers,
- Conduct regular team meetings (inviting both Program Services and Legal Division staff) to discuss both broad and specific program-related issues,
- Finalize and effectively communicate the draft policies and procedures, and
- Share pertinent information with other staff.

Status:

08/17/11 - On November 30, 2010, the NSP launched an aggressive training program to communicate policies and procedures to subgrantees and staff that carries through to the present day. With the closing of the vast majority of NSP1 subgrantee loans complete, the emphasis of the training effort has been homebuyer qualification and the closing of homebuyer loans. Recognizing the need to provide NSP technical assistance to grantees nation-wide, HUD has complimented the State NSP training effort by providing consultants to review the program and provide tailored, on-site training to staff and subgrantees.

A list of training and technical assistance by NSP staff, HUD and HUD consultants (Training and Development Associates (TDA)) has been provided as an attachment to this response. The NSP will continue to schedule trainings and webinars and offer direct technical assistance where performance issues with subgrantees are identified.

On June 1, 2011, an updated version of the NSP Technical Manual was posted to the website and advertised via mass email to formally communicate written policies and procedures with subgrantees. As a result of HUD consultant technical assistance, on June 26, 2011, a revision to the Homebuyer Assistance Chapter was announced and the manual was reposted. The NSP is committed to refining and improving the implementation of the program and will post additional revisions as necessary.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
04/08/11 -		<p>Management concurs. Management will enhance the communication of program procedures and requirements with stakeholders, subrecipients and staff through conducting trainings, regular staff meetings and the development and finalization of written program guidance.</p> <p>From November 30, 2010 through December 9, 2010, NSP staff conducted four mandatory trainings in Austin, Dallas, Houston and McAllen for all NSP subgrantees that will be reselling NSP properties. The trainings included the requirements for setting deadlines for move-in with homebuyers and established a specific email address (nsphbdocs@tdhca.state.tx.us) to facilitate homebuyer procedures that were not being adequately and timely communicated due to limitations of the Housing Contract System. NSP will continue to schedule trainings and webinars and offer direct technical assistance where performance issues with subgrantees are identified.</p> <p>Management will review and revise the NSP Technical Manual to provide an enhanced roadmap for subrecipients by May 30, 2011.</p> <p>Management also concurs that effective internal communication is vital to the continued success of the NSP, helping to balance workload priorities and available time and staff resources. Management will work to ensure that communication regarding the timelines for closing activities is well understood by all internal staff and coordinated with external participants in the program.</p>

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
176	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 5/30/2011

Division: Neighborhood Stabilization

Section:

Issue: Chapter 2-A
Budget Amounts in DRGR and the Housing Contract System Should be Reconciled

The Department may not be reporting accurate information to HUD. There were discrepancies in the total budgeted amounts recorded in the Department's Housing Contract System and the budgeted amounts recorded in the DRGR system. Of the 52 contracts that we compared in both the DRGR and Housing Contract System, differences were noted in 26 contracts (50.0%). Four contracts had differences of \$1 million or more. One contract differed by more than \$5 million. Two contracts were entered into the DRGR system but were not in the Housing Contract System and one contract was entered into the Housing Contract System but was not in DRGR. Overall, there was a total difference of \$2,313,071 more in the DRGR system than in the Housing Contract System.

HUD requires each grantee to report on its NSP funds using the DRGR system. HUD uses grantee reports to monitor for anomalies or performance problems that suggest fraud, waste, and abuse of funds and to reconcile budgets, obligations, fund draws and expenditures.

A reconciliation of the data in the DRGR system, the Housing Contract System, and the contract file does not occur on a regular basis. Only two reconciliations were performed as of November 5, 2010. Both were performed in connection with an external audit by HUD. However, in both of these reconciliations, the data was not reconciled in the aggregate at the program level, only at the individual contract level. Without regular reconciliations, contract information in the Department's Housing Contract System will not be consistent with HUD's DRGR system or with the hard copy files.

The program manager is responsible for submitting program reports to HUD using the DRGR system. The program manager is also responsible for entering contract budget corrections into both DRGR and the Department's Housing Contract System. Ideally, these functions should be separated. When one person has the ability to enter data into the Housing Contract System and DRGR, there is a higher risk that data entry errors go undetected. Regular and routine reconciliations should identify data entry errors.

Lack of regular reconciliations may prevent management from having accurate performance information available for decision-making and for reporting to HUD. A regular reconciliation process ensures that data is accurate and that unauthorized changes have not occurred.

Recommendations

NSP should perform regular and routine reconciliations between the data in the Housing Contract System, the data in the DRGR system and the hard copy files. At a minimum, these reconciliations should include:

- reviewing source documents,
- verifying the accuracy and recording of the transactions in the Housing Contract System,
- comparing DRGR to the Housing Contract System,
- identifying and resolving any discrepancies in a timely manner,
- documenting the performance of reconciliations,
- reviewing the reconciliations to ensure they are performed and any discrepancies are resolved, and
- ensuring the individual performing the reconciliation does not also enter data into either of the data systems being reconciled or have the ability to process transactions.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
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Status:

08/17/11 - The Program Services Division completed a reconciliation of the Housing Contract System (HCS) and the Disaster Recovery Grant Reporting System (DRGR) on 06/27/2011. The discrepancies identified by the report are still being investigated and resolved by NSP staff.

A Budget Transfer Reconciliation report will be developed and presented to the TDHCA Governing Board on 09/15/2011. Resolutions to all discrepancies will be provided; if budget transfers that were not previously approved are identified, authorization from the Board will be requested at that time.

Program Services has completed a draft of an SOP to maintain the two systems, HCS and DRGR, in agreement from the point of reconciliation moving forward. A key role in the SOP will be filled by the Information /Database Specialist that the NSP plans to add to the team.

04/22/11 - Until all NSP funded activities can demonstrate a final eligible use benefit, TDHCA's Housing Contract System (HCS) and HUD's Disaster Recovery Grant Reporting System (DRGR) will diverge. In order to minimize this divergence, an SOP to reconcile the two database systems at the aggregate level on a monthly basis is under development and will be provided by the May 30, 2011 target date.

04/08/11 - Management concurs. Program Services staff is currently in the process of reconciling the contract system with DRGR, and the responsibility for completing HUD reporting from the DRGR system is being reassigned to a staff member in Program Services. A full reconciliation is anticipated to be complete by April 30, 2011. Management will review existing draft SOPs to edit or create a new SOP to ensure that a process exists for the two systems to be reconciled on a monthly basis thereafter; associated SOPs will be finalized by May 30, 2011

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177	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 5/30/2011
			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 2-B
Data in the Housing Contract System Should Accurately Reflect the Status of the Contracts

The contract status in the Housing Contract System does not always reflect the actual status of the contract. We randomly selected a sample of 48 NSP contracts for testing purposes. The status of 18 of the 48 (37.5%) contracts reviewed in the Housing Contract System (and using the hard copy contract files) was inaccurate. The status should be classified as "pending" "active" "closed" or "terminated for cause" depending on the situation.

We found that of the 18 inaccurately classified contracts:

- Ten contracts expired on November 30, 2010. According to NSP and TDRA management, amendments are in process. These contracts should be classified as pending amendment or inactive but were still labeled "active."
- Four files were labeled as closed, but there was no formal documentation scanned in the Housing Contract System to support closing the project.
- Two files were labeled "terminated for cause" but should be "closed."
- One file labeled "active" should be "closed."
- One contract was not yet entered into the Housing Contract System; therefore no status was available.

The status in the Housing Contract System should agree to the actual status of the contract. When triggering events such as contract expiration or contract termination occur, the status in the Housing Contract System should be revised and the correct classification should be used. Documentation supporting the triggering event should also be entered into the Housing Contract System.

NSP staff does not always update the Housing Contract System when triggering events occurred such as contract expiration or voluntary termination. As a result, program managers who use the data in the contract file and the Housing Contract System for decision-making may not be relying on the correct data.

Recommendation

NSP should ensure that the contract status in the Housing Contract System accurately reflects the status of the contract.

Status:

08/17/11 - On August 1, 2011, NSP SOPs for Draws and Set-ups were formally presented to staff and made effective. These SOPs include the formalization of Housing Contract System (HCS) procedures to clearly identify procedure for up-to-date status designations moving forward.

The NSP Management Oversight SOP was developed and made effective on 08/17/2011 in order to ensure compliance with written policies and procedures for up-to-date status designations moving forward.

04/08/11 - Management concurs. Management will review and amend existing draft SOPs regarding contract status in the Housing Contract System to ensure that a clear procedure exists for timely and accurate updates to HCS and implement a monthly review as part of the monthly reconciliation process discussed as part of response to recommendation 2A.

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			Ix	08/17/11

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Section:

Issue: Chapter 2-C
Supporting Documentation Needs to be Available in the Housing Contract System

Data in the Housing Contract System is often unavailable. Documents supporting the contract setups and draws, and the actual amendments themselves were not always present in the Housing Contract System. For instance, imaged documents for the budget amendments was not available in the Housing Contract System for 17 of 28 (60.7%) sub-recipient contracts reviewed. As a result, accounting and other program personnel periodically have to track down documentation supporting executed amendments on a case-by-case basis.

Supporting documentation for setups was not always available in the Housing Contract System. Examples of setup documents that were unavailable include:

- 26 of 48 files (54.2%) did not include evidence of environmental review, (Of these 26 files, 21 were TDRA files), and
- 5 of 48 files (10.4%) did not include contract termination documents, although the contracts were (or should have been) terminated.

Draw documents not included in the Housing Contract System are discussed in Chapter 3-C.

The draft NSP procedures require that supporting documentation be entered into the Housing Contract System. Expecting program staff and other Department staff to track down documentation that should be available in the Housing Contract System is time consuming and inefficient. As a result, users of the Housing Contract System may rely on incorrect data because the information in the system is incomplete or unavailable.

Recommendation

NSP should:

- ensure that all supporting documentation is submitted by both the Department and TDRA and available in the Housing Contract System, and
- finalize, communicate and enforce the procedures that require supporting documentation to be entered in the Housing Contract System.

Status:

08/17/11 - On August 1, 2011, NSP SOPs for Draws and Set-ups were formally presented to staff and made effective. These SOPs included revisions and formalization of Housing Contract System (HCS) procedures for required supporting documentation. All NSP draw checklists have also been revised and posted to clearly identify required supporting documentation.

On August 17, 2011, the NSP Loan Processing SOP and checklists for set-ups were presented to staff and made effective. Uploading of revised set-up checklist is pending review of online accessibility.

The NSP Management Oversight SOP was developed and made effective on 08/17/2011 in part to ensure compliance with written policies and procedure for the attachment of required documentation in HCS.

04/08/11 - Management concurs. Management will review and edit existing draft SOPs or create new SOPs to ensure that all required supporting documentation is submitted and available in the Housing Contract System. All checklists will be reviewed and edited, as necessary, to facilitate the process and provide a clear understanding of the required documentation. Associated SOPs and checklists will be finalized and communicated to staff and subgrantees by May 31, 2011.

Management will establish a process for periodic sampling and testing of the Housing Contract System by August 31, 2011 to ensure that all required supporting documentation is present.

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Section:			Px	08/17/11 9/30/2011

Issue: Chapter 2-D
NSP Should Ensure that Supporting Documentation is Available to Verify that HUD Obligation Requirements were Satisfied

NSP does not maintain a listing, outside of the Housing Contract System, of the addresses and/or household names that were used to obligate the NSP funds by the September 3, 2010, deadline for obligations. NSP relies on the information in the Housing Contract System to record obligations. However, the Housing Contract System is constantly in flux and does not maintain a complete historical record of information. Therefore, we were unable to determine accurately the original population of awards obligated by the September 3, 2010, deadline. Because we could not determine the obligation population, we could not confirm compliance with the HUD requirements.

The Housing and Recovery Act of 2008 requires grantees to use NSP funds within 18 months of when HUD signed its NSP grant agreement. For the Department, the 18- month period ended September 3, 2010. Funds are considered used when they are obligated by a grantee. HUD requirements include ensuring each obligation can be linked to a specific address. The obligation for each eligible use must be further evidenced by a specific event. For example, acquisition and landbank costs are considered obligated when the seller has accepted the purchase offer. Demolition costs can be reported as obligated when the subrecipient awards a demolition contract. A subrecipient's rehabilitation costs can be recorded as obligated when a construction contract is awarded for a specific property. To test the evidence of obligation, the population of obligations must first be identified. Because a listing of addresses and/or household names was not maintained outside of the Housing Contract System, the population of obligations could not be easily determined.

Recommendation

NSP should ensure that the Department has documentation in place to support the obligation information reported to HUD.

Status:

- 08/17/11 - On August 15, 2011, the Program Services Division completed an evaluation of the documentation that was uploaded to the Housing Contract System (HCS) to support obligations as of the HUD-imposed obligation deadline of 09/3/2010. The discrepancies identified by the report are still being investigated by NSP staff.
- 04/22/11 - A full reconciliation between HCS and DRGR is in the final stages of production and will be completed by April 29, 2011. Obligations reported in HCS are being reviewed by the Quality Assurance section of Program Services to ensure that obligation amounts reported in DRGR are supported with appropriate documentation.
- 04/08/11 - Management concurs. Management has charged Program Services with the responsibility for re-evaluating and reconciling the documentation provided to recertify the obligations made as of the obligation deadline by April 30, 2011

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ix 04/08/11
ix 08/17/11

Section:

Issue: Chapter 2-E
Generic Data in the Housing Contract System Should be Replaced

Generic data is entered into the Housing Contract System in the household name field for NSP contracts. We tested 1,725 entries in the Housing Contract System and identified 1,188 (68.9%) with generic data in the household name field. Examples of generic data include: "unknown," "not applicable," "TBD," or the street name.

The Housing Contract System requires an entry in the household name field in order for the entry to be completed. However, the NSP subgrantees do not always have this data available at the time of the data entry because the household name may not be determined until the completion of the project.

The Information Systems Division has scheduled modifications to the Housing Contract System that will allow a contract to be setup without using generic data. If the generic data that is entered into the Housing Contract System is not replaced with the actual data once it is known, then the data that is in the system will not be reliable. In addition, if the generic data is not standardized, then it will be difficult to identify all entries that have generic data in the household name field and will require a more in-depth analysis to ensure that all of the generic data has been replaced with the correct information once the system is modified.

Recommendations

NSP staff should ensure that:

- the generic data entered into the Housing Contract System is replaced by the correct data once it is known.
- the subgrantees are consistent in the use of generic data entered into the household name field to ensure that all generic data is identified and corrected.

Status:

08/17/11 - On February 1, 2011, Information Systems edited the Housing Contract System (HCS) requirement for generic data to be entered in certain fields. The original HCS requirement was based on other programs for which this type of information is intrinsic; NSP subgrantees may not have this information at the creation of set-up. With the change, NSP subgrantees are no longer required to enter placeholders, such as "unknown," where a homebuyer name was previously required; any blanks subgrantees leave will automatically be populated with "unknown".

As the generic data is linked to homebuyer transactions, the generic data that was entered prior to the system change will be removed moving forward as actual homebuyers are entered into the system. There is no completion target date for this process as it is ongoing. This process has been explained to staff and was determined to not be necessary to include in an SOP. An activity involving a homebuyer cannot be closed out until a beneficiary is identified and the generic placeholder removed and all activities must eventually be closed out or terminated.

04/08/11 - Management concurs. After the field work for the audit was completed changes to the Housing Contract System were implemented to remove the requirement that generic data be entered in certain fields in order for the system to accept the activity setup. As the generic data fields all tie to homebuyer transactions, they will be corrected to include homebuyer information as the properties are resold. Training on both of these issues has also been provided to all subgrantees and the need for additional training will be monitored by the Program Specialist as they approve future activity set ups

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Section:

Issue: Chapter 3-A
The Department Should Review TDRA Draws Prior to Payment

Draws initiated by TDRA go directly to the Department's Accounting Operations staff for payment processing. NSP staff do not review these draws prior to payment. TDRA is responsible for the administration of no more than \$19,981,500 (19.6%) of the \$101,996,848 NSP grant from HUD.

The MOU between the Department and TDRA states that the Department will monitor TDRA's oversight of their subgrantees to ensure that activities are completed, performance goals are met and funds are expended in accordance with program requirements, contract provisions, applicable state and federal rules, regulations, and policies.

Since the draws initiated by TDRA are not reviewed by NSP staff prior to payment, there is a higher risk that those draws may not be processed correctly or within the program's requirements. The Department is responsible for the overall NSP grant from HUD, including the draws initiated by TDRA.

Recommendation

NSP should implement a monitoring process for all draws initiated by TDRA to ensure that the draws are processed correctly and within the program's requirements prior to payment by Accounting Operations staff.

Status:

08/17/11 - As of 09/1/2011 the responsibility for direct administration of all TDRA contracts will be transferred to TDHCA. The work order to transfer these contracts in the Housing Contract System (HCS) to direct TDHCA oversight has been issued and is in progress. Upon completion of the work order, all former TDRA contracts will undergo the TDHCA two-tiered system of review by NSP staff (PM1) and Program Services Quality Assurance Staff (PM2).

As of 08/10/2011 only \$699,288 had been drawn down by TDRA subrecipients under TDRA review. This represents less than 1% of the NSP funding awarded to subgrantees; therefore, greater than 99% of all subgrantee funding will undergo the TDHCA two-tiered drawdown review.

04/08/11 - Management concurs with the need for robust monitoring of TDRA, but the MOU with TDRA requires TDRA to have sufficient and appropriate controls for their draw process and holds them solely responsible for their draws. The Department's Compliance and Asset Oversight Division is scheduled to monitor TDRA and their subgrantee's NSP activities in March of 2011 and expect to have a report for management by the end of April. Management will ensure that the monitoring plan for TDRA's program contains a review of TDRA draws and will offer training and technical assistance to TDRA to address any deficiencies observed as part of the monitoring review

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			Ix	08/17/11

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Section:

Issue: Chapter 3-B
Timeliness of the Draw Process Should Be Improved

Not all electronic draws are reviewed and approved or disapproved within five business days of submission as required by NSP's draft policies and procedures. We judgmentally selected 77 draws for testing purposes. Of the 77 draws we tested, 18 (23.4%) were not processed within five working days; the longest time delay was forty-two working days. We tested closing fund draws, construction draws, activity delivery draws, set-up checklist draws and draws for administrative expenses. These draws cover each of the five different eligible uses (financing mechanisms, acquisition and rehabilitation, land bank, demolition, and redevelopment) plus administrative expenditures.

- Of the 31 closing fund draws tested, six (19.4%) were processed after the five -day requirement, with eight days as the longest delay.
- Of the five construction draws tested, all were processed within the five-day requirement.
- Of the 13 activity delivery draws tested, one draw (7.7%) took an additional fourteen days to process.
- Of the 18 set-up checklist draws tested, seven (38.9%) were processed after the five-day requirement, with four days as the longest delay.
- Of the ten administrative expenditure draws tested, four (40.0%) were processed after the five-day requirement with forty-two days as the longest delay.

If draws are not processed in a timely manner, then subgrantees may not be able to meet their obligations because the program uses a reimbursement basis.

Recommendation

NSP should ensure that all draws are processed within the required timeframe.

Status:

08/17/11 - Since the IA fieldwork was completed, management re-assigned staff to create a more centralized system for the processing of draws. This action had the intended consequence of improving timeliness. However, the NSP is a fluid program with workloads that fluctuate among staff and the strategy for continued timeliness in the processing of draws was reevaluated. The NSP SOP for Draws now places the primary responsibility for the processing of draws on the Program Specialists; however, at the discretion of management, support staff may be utilized to ensure the timely processing of draws.

The timely processing of draws is a major concern of management. The NSP Management Oversight SOP was developed and made effective on 08/17/2011 in part to ensure compliance with the timely processing of draws. The timely processing of draws will continue to be monitored and the distribution of workload reevaluated based upon the results of the oversight SOP.

04/08/11 - Management concurs that draws should be accurately and timely processed. Since the audit field work was completed, Management has re-assigned staff to improve the processing of draws. Management believes the revised process will ensure that the draws will be processed within the five days and will test to ensure that this is the case on a monthly basis, making additional adjustments to the process if needed

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			Ix	08/17/11

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Section:

Issue: Chapter 3-C
Draw Documentation in the Housing Contract System Should be Complete

The Housing Contract System is the automated system used by the Department to track housing activities. NSP uses the Housing Contract System to track the program's contracts, activities, and draws. We reviewed draw documents in the Housing Contract System to determine if all of the required documents were available and found that there were documents missing for three of the five types of draws we tested. We did not find any missing documents for set-up checklist draws or for construction activity draws.

Examples of missing documents include:

For the closing fund draws,

- 19 of 31 (61.3%) tax (payee) ID forms,
- 6 of 31 (19.4%) comptroller letters, and
- 5 of 31 (16.1%) borrower authorization letters were not on file.

For the activity delivery draws,

- 8 of the 13 (61.5%) draws tested did not have evidence of the single audit certificate.

For the administrative draws,

- 1 of the 7 (14.3%) administrative expenditure draws with salary costs did not provide either the payroll journals or cancelled checks to support the expenditures.

HUD requires that the Department maintain information on all draws, deposits and expenditures of grant funds. In addition, the NSP's draft procedure for draw requests requires that complete supporting documentation be received in order for a draw to be approved. Without the required supporting documentation, NSP does not have assurance that staff are processing draws accurately and within the program's requirements.

Recommendation

NSP should ensure that the required supporting documentation is available in the Housing Contract System prior to approving payment of the draw.

Status:

08/17/11 - The NSP Management Oversight SOP was developed and made effective on 08/17/2011 in part to ensure that proper documentation was included in the processing of drawdown requests.

In addition, the Program Services Division has also created an SOP for the periodic management sampling of NSP draw requests that will focus on the Quality Control (PM2) role and the existence of required documentation prior to PM2 approval.

04/08/11 - Management concurs that required supporting documentation should be attached to all draws prior to processing of payments. For TDHCA transactions two independent approvals (one by the NSP Program Specialist and one by the Quality Assurance Specialist in Program Services) of the supporting documentation are required for each draw. By August 31, 2011, the manager of NSP and the Director of Program Services will establish a process for periodic sampling and testing process of draws to ensure proper documentation has been included and to provide training for staff and subgrantees if such documentation is found to be missing.

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			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 3-D
Draw Checklists Should be Used Effectively

The checklists used by NSP staff to process draw requests do not have enough detail to guide NSP staff on how to process these draws. There is not a checklist for every draw type, staff do not always use the checklists consistently, and the checklists are not always signed by staff. Use of NSP's draw request checklists could be improved to ensure they provide clear and detailed guidance to NSP team members. NSP developed checklists to guide subgrantees in submitting their draw requests and to serve as a reference for NSP staff as they process draws. The checklists are supposed to cite the required supporting documentation and list any verifications the NSP staff must make prior to approving a draw.

Draw request checklists need more detail to guide NSP staff on how to process draws. The draw request checklists do not outline the specific items that NSP staff should verify within the supporting documents. The checklists also do not reference the requirements or criteria against which the requests and support should be reviewed. For example, checklists include boxes that list verifications that the reviewer should perform, such as agreeing amounts with the Housing Contract System, but they do not provide guidance on the approved methodology for reviewing the listed supporting documentation. Reviewers are required to sign off to verify review of these documents. It is not clear if the reviewer's signature indicates verification of the existence of the documentation or of the adequacy of the documentation.

NSP needs a checklist for every draw type. NSP has four checklists in place to handle the six types of draws. Three draw types do not have specific checklists: demolition expense draws, purchase and rehabilitation draws, and land bank cost draws. For demolition draws, subgrantees typically submit either the Demolition Set-up Checklist or the Construction Draw Request Checklist. Depending on which checklist a subgrantee uses, the criteria used to submit and evaluate the draw will vary. As a result, subgrantees and NSP staff do not have clear guidance as to what documents and benchmarks are required for a demolition draw request to be accurately approved. However, the purchase and rehabilitation as well as the land bank draws can be covered by one of the existing checklists. Although it would be better for these draw types to have their own individualized checklist, the absence of one does not appear to be jeopardizing compliance or hindering operations.

NSP staff use either the Closing Fund Draw or the Set-up Checklist when processing a closing fund draw. NSP staff are not using the Closing Fund Draw Checklist to process all closing funds. The Closing Fund Draw Checklist and the Set-up Checklist require different types of documentation to be provided in order for the draw to be processed. Therefore, the closing fund draws are not being processed consistently and the subgrantees may not have submitted all of the supporting documentation needed to process the draw. The draft NSP procedure related to draw requests states that the program specialist is responsible for ensuring that the supporting documentation is received as required by the appropriate draw request checklist.

Without documented guidance in place, the subgrantee may not be aware of all requirements necessary for their draw requests. Similarly, without references in place, NSP staff responsible for processing draws may not have a firm knowledge of the items required to support a draw. As a result, there is a risk that staff may approve draws for ineligible costs.

NSP and TDRA staff should complete the draw checklists consistently. Of the 77 judgmentally selected draws tested, 40 (51.9%) did not have completed checklists, and 16 (20.8%) checklists were not signed by the program specialist. The draft NSP procedure related to draws states that if the electronic setup is acceptable, then the program specialist will complete the draw request checklist. Without the signature of the program specialist affirming their review of the supporting documentation for the draw, NSP may be unable to determine if the supporting documentation was reviewed for accuracy and allowability prior to the approval of the draw by the program specialist. The use of checklists continually reminds staff of the job requirements. It is a systematic way to make sure the activities are completed correctly and provides written documentation to support this assertion.

Recommendations

NSP should improve the use of draw checklists by:

- modifying checklists to accurately document the draw requirements,
- developing comprehensive checklists for all draw request types, and
- ensuring that all draw checklists are completed correctly.

Status:

- 08/17/11 - All four NSP draw checklists for Administrative, Activity Delivery, Construction and Closing draws have been revised and uploaded to the NSP Forms Library on the division webpage. The process for revisions included NSP staff participation as well as a review conducted by Program Services Quality Assurance Staff. An email announcing the revised checklists was sent to subgrantees and staff on 05/08/2011.
- 04/22/11 - NSP draw checklists have been reevaluated and edited as appropriate for the following draw types: Administration, Activity Delivery, Closing and Construction. The edits have been performed in coordination with the Program Services Division. The updated checklists will be added to the NSP Forms Library on the website by April 29, 2011, and simultaneously a broadcast email will be sent to all subgrantees informing them of the revisions.
- 04/08/11 - Management concurs. Management will re-evaluate and edit checklists as necessary to be specific for each of the following draw types: Administrative, Activity Delivery, Closing and Construction Draws.

The revised checklists will be implemented by March 31, 2011, and staff will continue to provide training and technical assistance to subgrantees in person and via webinar.

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Division: Neighborhood Stabilization

Section:

Issue: Chapter 4-A
The Department Needs Increased Resources to Meet the Deadline for Loan Closings

There are no formal timing requirements or goals in place for loan closing. Based on workload estimates provided by NSP management, there is not enough staff to close all the loans by the August 31, 2011 initial closing deadline.

NSP has four staff for loan closers. However two have additional responsibilities apart from closing loans. It is possible to process a homebuyer loan in 45 working days (or nine weeks) from underwriting to closure. This includes the 30 days required by legal for loan document preparation and review. In the private sector, it takes approximately two weeks to process a homebuyer loan and full-time loan processors can complete ten to fifteen closings each month. It is important to note that non-homebuyer transactions can be more complex and may require more time and effort for the loan closer. To assess the feasibility of meeting the August 31, 2011 deadline, we considered different staffing scenarios for processing the estimated 400 loans and concluded that it is highly unlikely that NSP will be able to meet the deadline with the current staffing level.

The average workload used for comparison purposes is the average estimated workload for private sector loan closings. Assuming that the private sector processes loans at a faster rate (two weeks), and comparing this rate to the Department's minimum nine-week process, the feasibility of NSP meeting the deadline at their current staffing level is further diminished. In addition, since the loan closers cannot begin the closing process until the subgrantees have submitted a setup, it is unlikely that the anticipated workload will be evenly distributed over the coming months. It is more likely that as the deadline approaches more and more setups will be submitted for processing, creating longer delays and a larger backlog.

If NSP is unable to close the estimated number of loans by August 31, 2011, homebuyers awaiting closings could be without housing or incur additional expense in finding a temporary place to live.

Recommendation

The Department should re-evaluate the resources of the NSP and reallocate staff as necessary to ensure that there are an adequate number of loan closers to complete the anticipated influx of closings. In addition, NSP should redistribute responsibilities to ensure that employees who conduct homebuyer loan closings can focus primarily on that task.

Status:

08/17/11 - Since the inception of the audit review, NSP Management has provided focused training for homebuyer loan closings to improve the quality of the loan closing portion of the activity set-ups and has been re-allocating staff resources in order to ensure that homebuyer transactions are processed in a timely manner. In addition to a Loan Closing Specialist and Loan Specialist dedicated to homebuyer transactions, all staff has received homebuyer underwriting training to directly contribute to the process.

HUD has provided training consultants to review the NSP homebuyer transactions process and provide tailored, on-site training to staff and subgrantees. The technical assistance provided by HUD consultants led to a streamlining of the homebuyer process included in the NSP Technical Manual.

Outside counsel has been secured to process NSP homebuyer transactions and reduce demand on the TDHCA Legal Division. All supporting closing documentation is organized and transferred directly from the NSP to outside counsel for preparation of loan documents.

It should also be noted that while the overall number of estimated homebuyer loan closings has not diminished; nearly all NSP contracts are being extended by 6 to 12 months to allow for a more reasonable timeframe than the original, aggressive goal of having all purchase

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		and rehabilitation activities in final eligible use by August 31, 2011.		
04/08/11 -		Management concurs and has re-allocated staff resources in order to ensure that homebuyer transactions are processed timely. Management will monitor workflow and as bottlenecks are forecast and identified, adjust resources to focus on the portion of the closing effort that is affected.		
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			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 4-B
The Workload for the Legal Division's Loan Document Preparation is Challenging

To ensure NSP's priorities are met, staff from legal created a tracking sheet of all files in its queue, which is updated regularly to reflect NSP's changes. The tracking sheet indicates that the queue has more than twice the number of "rush files" as it does files that are "pushed back" to allow for rushed jobs. Seven of the 46 files listed in legal's queue (15.2%) include comments stating that they were returned to NSP for revisions or confirmations. In many cases, legal had already started work on the files when they had to be returned.

In mid-December, legal released a Memorandum of Understanding (MOU) between NSP staff and legal staff regarding loan file workflows. The MOU requires program staff to meet with legal staff on a weekly basis to coordinate reasonable workloads, prioritizations, and projected work volumes. However, priority changes within NSP are occurring on a daily, rather than weekly basis.

The changes in priority and the number of "rush files" occurs because subgrantees commit to move-in dates and deadlines with prospective homebuyers without consulting the Department. As a result, NSP and legal are often rushing to meet deadlines they did not set. Legal is pursuing outside counsel to assist with the loan document preparation for approximately 400 incoming loans. Therefore, legal's workload will likely change once the outside counsel is hired.

The unreasonable workload could result in missing deadlines, a diminished quality of work, excessive overtime, a high burn-out rate, and the potential loss of experienced staff in both NSP and legal.

Recommendations

NSP should require subgrantees to communicate with the Department prior to setting deadlines for move-in with homebuyers. Move-in dates should be set after the loan documents are completed and ready for closing. In addition, NSP should take full ownership of reorganizing files to its preferred order for legal processing, thus alleviating the current back-and-forth between the two areas and freeing up the legal staff to focus on the preparation of loan documents.

Status:

08/17/11 - Since the inception of the audit review, NSP Management has provided focused training of homebuyer loan closings that has included direction to set move-in dates after the loan documents are completed and ready for closing.

Outside counsel has been secured to process NSP homebuyer transactions. All supporting closing documentation is organized and transferred directly from the NSP to outside counsel for preparation of loan documentation.

04/08/11 - Management agrees and is in the process of clarifying the responsibilities of program staff, Program Services staff, and Legal Services to promote efficiency, avoid duplicative efforts, and improve the coordination and scheduling of loan closings. As noted in the response to 1-D, subrecipient training and additional resources have been established to increase the communication surrounding loan closings. These actions will ensure a more predictable workflow and closing timeline. Legal Services, NSP, and Financial Administration are also assessing the possibility of adding to the Legal Services staff within existing budgetary and FTE constraints. Additionally, management is concluding a procurement process to secure an outside laws firm to assist in preparing closing documents for homebuyer transactions under NSP.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
187	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11
			Px	08/17/11 9/15/2011

Division: Neighborhood Stabilization

Section:

Issue: Chapter 4-C
NSP Loan Files Provided to Legal Should be Complete and Accurate

Key support, such as contracts and environmental clearance certifications, are often missing from the loan files when NSP forwards the files to legal. NSP Loan Closing Specialists attach a "Request for Preparation of Loan Documents and Closing Instructions" form to loan files provided to legal. The form provides general information on the files' contents. We compared the NSP form to the documentation that legal needs for homebuyer loan preparation. The form did not include many of the items needed by legal, including subgrantee contract information, indication of environmental clearance, and indication that the purchase discount was satisfied or waived.

NSP has been largely focused on productivity. High production appears to have an impact on the quality of work. The risk of error is heightened by the lack of mitigating controls such as formalized policies and procedures (see Chapter 1-C.)

The responsibility for ensuring the accuracy of the information in the files lies with the NSP. If information in the loan file is not correct and the error is not caught by legal, inaccurate or incomplete homebuyer loans could be closed and funded, NSP money could fund non-compliant transactions, or NSP may unknowingly report incorrect information to HUD.

Recommendations

NSP should:

- enhance quality assurance reviews on the front end of the homebuyer loan closing process to ensure that issues are caught and corrected before files are sent to legal, and
- amend the "Request for Preparation of Loan Documents and Closing Instructions" form to include a comments section and checkboxes to indicate the file includes all of the items required by legal in order to prepare homebuyer loan documents.

Status:

08/17/11 - The NSP Set-up Checklist for Subgrantee Activities has been revised in coordination with the NSP Loan Closing Specialist for subgrantee transactions. The revisions are based upon months of coordination with the Legal Services Division on subgrantee transactions. The checklist was presented to NSP staff on 08/17/2011. The revised checklist will be reviewed for web-based accessibility and posted to the NSP Division webpage by 09/15/2011. An email will also be sent to subgrantees announcing the revision.

The NSP Set-up Checklist for Homebuyer Activities was reevaluated but not revised Homebuyer loan files that are processed by outside legal counsel.

04/08/11 - Management concurs. Management will ensure the standardization of documentation to be reviewed by Legal Services and existing checklists will be reevaluated and revised in coordination with Legal Services to ensure that files are complete for each transaction. The clarifications now being finalized will clearly delineate the documents that will be required (to enable subgrantees to gather them), the review to be performed by Legal Services, and the programmatic reviews that will be performed by NSP and/or Program Services.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
188	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11
			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 5-A
The 2009 Annual Section 3 Summary Report Should be Submitted to HUD

NSP did not collect Section 3 data for 2009. Section 3 of the Housing and Urban Development Act of 1968 requires the Department and its subgrantees to give priority consideration in awarding jobs, training, and contracting opportunities to low- and very low-income persons who live in the community in which the funds are spent. NSP contracts have been in place since September 1, 2009, but Subrecipient Activity Reports used to collect Section 3 data were not modified to capture the required data until March 31, 2010.

We tested 23 randomly selected Subrecipient Activity Reports submitted since April 2010 and found that only 12 (52.2%) of the reports submitted by the subgrantees in our sample used the revised reporting template designed to capture the required Section 3 reporting data. Of those 12, only six subgrantees reported any Section 3 data.

HUD's guidance on Section 3 reporting says, "State and county agencies must report to HUD on the cumulative Section 3 activities within their jurisdiction on an annual basis.... Section 3 reports must be submitted by all agencies that receive Community Planning and Development funding in excess of \$200,000 whether the requirements were triggered or not." According to the guidance, the Department should have submitted an annual Section 3 Summary Report for 2009 even though there were no Section 3 activities performed by the subgrantees during 2009. Failure to comply with the requirements of Section 3 may result in sanctions including debarment, suspension, or limited denial of participation in HUD programs.

Recommendation

NSP should submit Section 3 Summary Reports to HUD in accordance with HUD's guidance in order to ensure that the Department complies with federal program requirements.

Status:

- 08/17/11 - The 2010 Section 3 Report for the NSP was submitted to HUD on 04/29/2011. The 2009 Section 3 Report for the NSP was submitted to HUD on 08/17/2011.
- 04/08/11 - Management concurs. The Program Services Division is coordinating with the Housing Resource Center to prepare the 2009 and 2010 Section 3 report for the Department. The Department established a Board policy on Section 3 in December of 2010 and immediately thereafter launched a website to inform and collect information for all Section 3 impacted programs. NSP subgrantees have been informed via a listserv announcement of the new website and the policy which reiterated requirements already in their contracts

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
189	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11
			Ix	08/17/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 5-B
The Department Should have Followed the \$525,000 Minimum Award Amount

Although not required by HUD, the Department's NOFA set a minimum NSP contract amount of \$500,000 plus \$25,000 in administration fees for a total contract of \$525,000. However, of the 48 randomly selected contract files tested, one original contract was written for less than \$525,000. The NSP NOFA states that "In order to avoid allocating small amounts of funding that can have no meaningful impact on stabilizing of property values, the minimum award amount to an eligible entity cannot be less than \$500,000, excluding administration cost."

Although the Texas Administrative Code for NSP allows the Department to issue a waiver of certain contract terms required in the 2009 NSP NOFA, the stricter requirements of the NOFA may have deterred potential subgrantees from applying for grant funds and could have resulted in fewer areas served by the NSP.

Recommendation

The Department should abide by the NOFA to ensure the subgrantees understand the Department's intent and that all subgrantees are offered an equal opportunity to participate under the same set of rules.

Status:

- 08/17/11 - NSP Management will ensure that any future subgrantees will abide by the requirements of the applicable NOFA. If a subgrantee requests an action that deviates from the applicable NOFA and management agrees that the deviation is reasonable and beneficial to the purpose of the NSP, then a request for a waiver of the NOFA will be required and brought to the Board for consideration.
- 04/08/11 - Management concurs and will ensure that any future subgrantee abides by the requirements of the applicable NOFA

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
190	4/8/2011 Internal Audit	An Audit of the Neighborhood Stabilization Program To determine whether the Department is operating effectively and in compliance with laws, r	Px	04/08/11 3/31/2011
			Ix	04/22/11

Division: Neighborhood Stabilization

Section:

Issue: Chapter 5-C
NSP Should Confirm Contract Terminations in Writing

NSP management did not consistently abide by the contract terms for termination of a contract. Specifically, a subgrantee requested that its NSP contract with the Department be terminated but the Department failed to issue a letter confirming the termination as required by the contract.

The contract between TDHCA and each subgrantee indicates that, "either of the parties to this contract shall have the right to terminate this contract when both parties agree that the continuation of the activities funded under this contract would not produce beneficial results commensurate with the further expenditure of funds; provided that both parties agree, in writing, upon the termination conditions, including the effective date of such termination."

NSP management acknowledged termination of the contract via a phone call, but did not ensure that the required letter was sent in order to complete the termination process. As a result, the termination process for this contract is not complete.

Recommendation

The Department should abide by the contract terms and confirm the termination of any NSP contract in writing

Status:

- 04/22/11 - All terminated TDHCA SNP contracts have been reviewed for proper documentation of status. Three contracts were found to not have been documented in writing as terminated. Two additional contracts were terminated; however, these were not funding terminations, but rather conversions from a subrecipient contract format to a developer agreement (principally for program income reporting purposes). The 3 funding terminations and 2 developer agreements that were not previously documented have been documented in the contract files.
- 04/08/11 - Management agrees and will review all contract files to ensure that all contracts administered by TDHCA requiring termination have been documented in writing as terminated by March 31, 2011.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
192	4/12/2011 Internal Audit	An Internal Audit of the Weatherization Assistance Program Report # 11-1041 WAP contracts for program years 2008, 2009, 2010, and ARRA-WAP contracts for period be	Px	04/12/11

Division: Community Affairs

Section: Energy Assistance - WAP

Nr 08/23/11
Px 09/02/11 9/15/2011

Issue: We performed a review of the monitoring instrument used by program officers during full on-site monitoring visits of WAP subrecipients to determine the existence and the sufficiency of procedures intended to prevent, detect, and deter fraud, waste, or abuse. Many of the procedures contained in the monitoring instrument are designed to identify potential instances of fraud, waste, or abuse. However, when we conducted a survey of the Department's WAP program officers and unit inspectors with specific questions related to procedures for the detection and prevention of fraud, waste, or abuse, the respondents' answers varied widely. The responses for detection fell into one of the following general categories: by following the monitoring instrument, by performing comparisons and reconciliations, through conversations with subrecipient staff, and by identifying and testing anomalies and/or perceived weaknesses. The wide variation between responses suggests that specific detection procedures should be more effectively communicated to the program officers or unit inspectors.

When asked about procedures for preventing fraud, waste, or abuse, most program officers and unit inspectors cited the various monitoring procedures they mentioned previously regarding detection. Few program officers or unit inspectors addressed how they prevent fraud, waste or abuse from occurring in the first place. Therefore, the results suggest that the WAP does not have clear procedures for subrecipient education or prevention.

In addition, the WAP does not have a centralized location to track or document the status, action taken, or outcome of fraud, waste, or abuse allegations and investigations. We requested all information related to fraud, waste, or abuse allegations for program years 2008- present and obtained a list of investigation documentation from WAP management. WAP management noted that it does not maintain fraud, waste, or abuse documentation in a centralized location. It is important that fraud, waste, or abuse allegations received by WAP be maintained in a centralized location to ensure that all allegations are tracked, investigated, and resolved as appropriate. In addition, these allegations should be shared with the appropriate Department staff as required by the Department's policy.

Recommendations:

The Division should:

- develop, finalize, and distribute strengthened procedures for the prevention and detection of fraud, waste, or abuse including a process for tracking, investigating, and resolving any allegations brought directly to the program officers or Division management.
- develop and implement enhanced procedures for subrecipient education regarding fraud, waste or abuse prevention and detection, and
- establish a centralized location to track all WAP fraud, waste, or abuse allegations.

Status:

- 09/02/11 - a) Energy Assistance is in the process of developing SOPs to address: 1) the prevention and detection of Fraud, Waste, and Abuse and 2) the tracking, investigation, and resolution of Fraud Waste, and Abuse allegations.
- b) The Energy Assistance (EA) group has distributed Fraud, Waste, and Abuse educational material to Subrecipient Management and Board Chairs/City Managers; it has provided Fraud, Waste, and Abuse Awareness, Prevention and Detection Training to the EA monitors and Subrecipient network.
- c) Energy Assistance is in the process of developing a centralized spreadsheet to track all fraud, waste, and abuse allegations.
- 08/23/11 - Spoke with management, who will subsequently provide an update on prior audit issue 192 to internal audit.
- 04/12/11 - Management agrees with the recommendations and will develop procedures for the prevention and detection of fraud, waste, and abuse, including development of a centralized process for tracking investigations and documentation of the resolution of identified instances. The database will reside in an agency drive with "read only" access for all Community Affairs staff and will be editable by limited staff in order for management to ensure, timely, thorough, and proper documentation and subsequent resolution of identified instances. The Office of ARRA Accountability and Oversight has already developed, finalized and distributed the procedures for subrecipient education regarding fraud, waste, and abuse. These documents were provided to the subrecipient network on April 4, 2011.

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u>	<u>Target Date</u>
193	4/12/2011 Internal Audit	An Internal Audit of the Weatherization Assistance Program Report # 11-1041 WAP contracts for program years 2008, 2009, 2010, and ARRA-WAP contracts for period be	Px	04/12/11 5/1/2011
			Nr	08/23/11
			Px	09/02/11 9/15/2011

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: When a complaint is received, WAP management will assign the complaint to one of the WAP program officers for follow-up. Documentation of the complaint is the responsibility of the program officer who was assigned to the complaint.

We conducted a survey of the 18 WAP program officers and unit inspectors with specific questions related to complaint tracking and resolution. Most respondents stated that they receive complaints "sometimes" to "regularly." However, the procedures for tracking, investigating and resolving complaints varied among the respondents.

The survey results indicate a clear complaint escalation process is not in place. When asked, "Who do you notify when you receive a WAP related complaint?" Six of the 14 respondents (43%) stated that their approach to handling the complaint depends on the complaint type. For example, sometimes the respondent will notify management of the complaint and sometimes they handle the complaint independently. Four respondents (29%) stated that they notify management for every complaint received and two respondents (14%) said management notifies them of complaints. One respondent (7%) stated that he/she typically notifies the program officer who is assigned to the subrecipient indicated in the complaint. One respondent (7%) did not answer this question.

Similarly, a wide range of survey responses indicates that a clear complaint tracking process is not in place. When asked, "How do you track complaints?" Six of the 14 respondents (43%) stated they do not track complaints and the remaining five (36%) cited a range of methods including personal calendars, e-mail, notes to self, and a phone contact log.

A set complaint investigation approach or timeframe also appears to be lacking. When asked, "How do you follow-up on and resolve complaints?" of the 14 respondents, six (43%) stated they typically resolve complaints in 0-5 days, three (21%) stated they take 6-10 days, two (14%) said they take 11-15 days, and two (14%) said they take 16-20 days. Their methods for resolving complaints ranged from phone calls to verifications to written responses.

The WAP does not maintain complaint information in a centralized location. We attempted to perform a review of all WAP complaints for program years 2008 to present. However, WAP management was unable to provide a complete population of the complaints because they are documented in various locations and often in individuals' e-mail. The WAP should track all complaint information in a centralized location in order to ensure that all complaints are tracked, investigated, and resolved.

Recommendation

The Division should develop, finalize, and distribute procedures for the tracking, investigation, and resolution of complaints and establish a centralized location to track all complaints received by the program officers or Division management, including information regarding the investigation and resolution of the complaint.

Status:

- 09/02/11 - Energy Assistance (EA) is in the process of developing an SOP to address the tracking, investigation, and resolution of complaints received from program officers and Division management. EA is also in the process of developing a centralized spreadsheet to track complaints, which will include investigation and resolution details.
- 08/23/11 - Spoke with management, who will subsequently provide an update on prior audit issue 193 to internal audit.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
04/12/11 -		<p>Management agrees with the recommendations and will develop procedures for the tracking, investigation and resolution of complaints including development of a centralized process for tracking investigations and the documentation of the resolution of complaints. The database will reside in an agency drive with "read only" access for all Community Affairs staff and will be editable by limited staff in order for management to ensure, timely, thorough and proper documentation and subsequent resolution of identified instances.</p> <p>The Manager of the Energy Assistance Section will develop procedures for the tracking, investigation and resolution of complaints. Additionally, the Manager of Energy Assistance will initiate a centralized tracking system for all complaints. The target date for implementation is May 1, 2011</p>

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**INTERNAL AUDIT
BOARD ACTION REQUEST
SEPTEMBER 15, 2011**

Presentation and Discussion of the Status of the Fraud Hotline and Fraud Complaints.

RECOMMENDED ACTION

None, information item only.

BACKGROUND

In fiscal year 2011, internal audit handled a total of 91 fraud complaints. Of these:

- 60 calls were received on our hotline:
 - 12 were related to the Department's programs or staff
 - Weatherization/CEAP -5
 - Neighborhood Stabilization Program – 2
 - Disaster Recovery – 2
 - Multifamily – 2
 - Manufactured Housing - 1
 - 48 were related to other agency's or housing authority's programs. These callers were referred to the appropriate agency.
- 31 complaints were received from other sources. These complaints included:
 - Weatherization/CEAP – 10
 - Disaster Recovery – 7
 - Tax Credits – 7
 - CSBG – 2
 - HOME – 2
 - Section 8 – 2
 - Manufactured Housing – 1

The sources for these complaints were:

- TDHCA Staff – 19
- SAO Hotline – 7
- Board Members – 2
- Public – 1
- HUD-OIG – 1
- WAP Subrecipients - 1