

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Emergency Solution Grant (ESG) program
Audit Report # 18-004

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Emergency Solution Grant program processes and controls that are currently in place. This included review of the application process by the sub-recipients, reporting requirements, and disbursement of funds by the program. Based on our surveys, reviews, and testings, the ESG program provides good service to its stakeholders. Various procedures and controls related to sub-recipients should be strengthened, as described in the detailed report.

Findings and Recommendations

- The program should consider establishing program specific Standard Operating Procedure to improve efficiency and consistency within the division
- In order to meet future Performance Measures OIA recommends that the program re-evaluate their forecasting and program evaluation process, and make edits and revisions as needed and to set more realistic goals.
- To ensure consistency and compliance among Sub-recipients OIA recommends that the Division establish more precise and direct guidance for sub-recipients and collaborative partners.
- To ensure timely reporting of MER and MPR, and gathering of necessary and important data, OIA recommends the program develop incentives for timely submission of reports

Response:

Management agreed with our recommendations
Detailed responses are included in the body of the audit report.

Responsible Area:

Director of HOME and Homelessness program

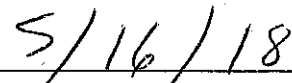
Objective, Scope and Methodology

Our scope included a review of the relevant portions of Texas Government Code, applicable federal regulations, as well as the ESG program's policies, processes, and procedures. Based upon our preliminary understanding of the ESG program we identified critical points and risk, to develop audit objectives and an audit program including methodology.

We reviewed the ESG program goals, processes, and roles and responsibilities. We reviewed the controls related to the program and tested certain transactions and controls. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires testing of the controls of a state agency's major programs and systems, and the controls related to them.



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



Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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May 16, 2018

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

RE: REVIEW OF THE EMERGENCY SOLUTION GRANT PROGRAM

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Emergency Solution Grant Program.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Emergency Solution Grant (ESG)* and to evaluate the administrative and internal control procedures related to the program.

The ESG Program audit was identified during the 2018 fiscal year risk assessment. The ESG program rated high on the risk assessment due to turnover of staff and management.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Standard Operating Procedures ("SOPs")
- E. Eligible Activities
- F. Client Survey
- G. Performance Measure
- H. Monitoring of Sub-recipients and their Collaborative Partners
- I. Submission of monthly reports by Sub-recipients
- J. Matching Funds requirements
- K. Other audit work

A) OVERALL RESULTS

Based on our surveys, reviews, and testings, the ESG program provides good service to its stakeholders. Various procedures and controls related to sub-recipients should be strengthened, as described in the detailed report.

B) BACKGROUND

ESG funds are federal funds awarded to the State of Texas by the U.S. Department of Housing and Urban Development (“HUD”) and administered by the Department. In May, 2009, the Homeless Emergency Assistance and Rapid Transition to Housing (“HEARTH”) Act (“the Act”) was signed into law. The HEARTH Act amended and reauthorized the McKinney-Vento Homelessness Assistance Act, with important changes related to the Emergency Shelter Grants Program (“ESGP”). In response to passage of the Act, the governing regulations of the ESGP were amended, and the ESGP became the Emergency Solutions Grant program, subject to the interim rule at 24 CFR Part 576, made effective in January of 2012. The change from ESGP to ESG reflects the change in the program’s focus from addressing the needs of the persons experiencing homelessness in emergency shelters to assisting people to quickly regain housing.

The ESG program is a HUD funded program that supports street outreach, homelessness prevention, rapid re-housing, emergency shelter, and related services. Funds are allocated to the states, metropolitan cities, counties, and US territories based on the percentage of Community Development Block Grant (“CDBG”) funding granted to eligible areas in the previous fiscal year. CDBG uses population, population in poverty, overcrowding, and age of housing stock to determine the allocation for the CDBG program, so the same factors are utilized to determine the annual ESG allocation by default. In federal fiscal year 2017, the State of Texas received an allocation of approximately \$9M, which includes an extra allocation specified by HUD for the Amarillo Continuum of Care. TDHCA only administers the allocation to the State of Texas.

In 2016, the ESG program was transferred from oversight by the Community Affairs Division to oversight by the HOME Program Division. The division was then renamed to HOME and Homelessness Programs Division. The ESG program is overseen at the federal level by the HUD Office of Community Planning and Development (“HUD CPD”). The HOME Program is also overseen by HUD CPD.

C) Scope and Methodology

Our scope included a review of the relevant portions of Texas Government Code, applicable federal regulations, as well as the ESG program’s policies, processes, and procedures. Based upon our preliminary understanding of the ESG program we identified critical points and risk, to develop audit objectives and an audit program including methodology.

We reviewed the ESG program goals, processes, and roles and responsibilities. We reviewed the controls related to the program and tested certain transactions and controls. The Texas Internal Auditing Act, Tex. Gov’t Code §2102.005 requires testing of the controls of a state agency’s major programs and systems, and the controls related to them.

Our review identified areas for process improvements, which are described in the report that follows. We did not audit for the purpose of issuing an opinion on compliance.

D) Standard Operating Procedures (SOP)

An SOP is a procedure specific to the operation of a division that describes the activities necessary to complete tasks in accordance with applicable rules and regulation. It defines expected practices in a process where quality standards exist. SOPs play an important role in any organization and division as they're policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and value added to the division.

At the time of our review, the ESG program's policies and procedures, which were in the format of memoranda describing processes, were being assembled and organized in a comprehensive SOP.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
18-004.01	The program should consider establishing program specific Standard Operating Procedure to improve efficiency and consistency within the division	July 2, 2018	Abigail Versyp, Director of HHPD

Management Response:

While Standard Operating Procedures ("SOPs") for the ESG Program are in the process of being formalized, staff continues to use existing informal memoranda and notes drafted by staff to provide specific reminders for direction on performance of specific tasks. The SOPs in process are planned to be divided into two sections, one for the Production Team's responsibilities and one for the Performance Team's responsibilities.

The draft SOPs for the Performance Team's responsibilities will be finalized by May 15, 2018. The areas covered in this section include contract transfer procedures, contract review procedures, monthly performance report procedures, amendment procedures, draw procedures, request disapproval procedures, on-site training and technical assistance procedures, conflict of interest exception request processing procedures, and complaint management procedures.

The draft SOPs for the Production Team's responsibilities will be completed by July 2, 2018. The areas covered in this section include, but are not limited to, development of NOFAs, rules, applications, and contracts, financial reporting and reconciliation, and obligation and deobligation of funds.

E) Eligible Activities

Eligible activities of ESG program include street outreach, emergency shelter, homelessness prevention, rapid re-housing, and costs for Homeless Management Information Systems (HMIS) and administrative expenses. Street outreach activities include costs for reaching out to unsheltered homeless persons to connect them to emergency shelter or housing services, and to provide urgent care to those who will not or cannot utilize an emergency shelter. Emergency shelter costs can be used to provide essential services to those in emergency shelters, including case management, child care, education, employment and job training

assistance, outpatient health services, legal services, life skills training, mental health services, substance abuse treatment, transportation and services for special populations.

Homelessness prevention offers assistance to those clients who are currently housed, but in imminent risk of losing their housing, whereas rapid re-housing clients are homeless at the time of assistance. The assistance provided by the program includes short and medium term rental assistance, relocation stabilization services, utility payment assistance and moving costs.

The ESG program allows for up to 7.5% of the grant amount to be used to pay general administrative costs.

F) Performance Measures

Performance measurement is the “process of quantifying the efficiency and effectiveness of past actions.” In the ESG program the efficiency measure is determined by dividing the total expenditure of ESG funds by the total number of clients served in the program. Sub-recipients track the number of persons assisted through the ESG program on a regular basis and include this information in monthly reporting to the Department.

2 CFR §200.301;

The Federal awarding agency must require the recipients to use OMB-approved government wide standard information collections when providing financial and performance information. The recipient’s performance should be measured in a way that will help the Federal awarding agency and other non-Federal entities to improve program outcomes, share lesson learned, and spread the adoption of promising practices. Performance reporting frequency and content should be established to not only allow the Federal awarding agency to understand the recipient progress but also to facilitate identification of promising practices among recipients and build the evidence upon which the Federal awarding agency’s program and performance decisions are made.

In 2016 ESG program did not meet its Performance Measures. In “Eligible persons enrolled in ESG” the program was below the Fiscal Year target by 11%, and in “Average Sub-recipient Cost per person” the program was about 40% above the annual target. A contributing factor appears to be time lapse between the forecasting and actual reporting.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
18-004.02	In order to meet future Performance Measures OIA recommends that the program re-evaluate their forecasting and program evaluation process, and make edits and revisions as needed and to set more realistic goals.	Ongoing	Abigail Versyp, Director of HHPD

Management Response:

The HHPD Division has worked with the FHDMMR Division over the past several months to identify areas in the Performance Measures reported to the legislature for which methodology of data collection and reporting require updates. These updates were finalized for submission on March 23, 2018, and, if adopted by the Legislature, would be effective for the 2020-2021 biennium.

G) Sub-recipient and Clients Surveys

We administered one survey to TDHCA sub-recipients, and one survey specifically to the Board members of Sub-recipients who had once been a client of the ESG program. The surveys indicated overall satisfaction with the program activities administered by TDHCA. One of the respondents emphasized the variety of technical assistance she and her children received adding that “First, we felt safe. That was important after having felt unsafe for so long.”

One of the issues arising from the surveys is that, when people lose their identity documents, there is no program in place to help them get their identity documents. These people can no longer show that they are eligible for shelter or other benefits. According to the program management, assistance in this area is an eligible expense and is included in the online training provided to sub-recipients.

H) Monitoring of Sub-recipients and their Collaborative Partners

10 TAC Chapter 7 states that the ESG Sub-recipients shall comply with the regulations applicable to the ESG program as set for in 24 CFR Part 91 and 24 CFR Part 576 (the “Federal Regulations”). Sub-recipients that subcontract or subgrant any portion of their award to another entity must, consistent with 2 CFR Part 200, monitor those subcontracts based on a risk assessment.

According to Catalog of Federal Domestic Assistance (CFDA) 14.231.Section 3.F, if Sub-recipient is a pass-through entities, defined in 2 CFR §200.74¹, Sub-recipient will follow the requirements for pass-through entities in 2 CFR §200.331², including but not limited to monitoring the activities of the subaward as necessary to ensure that the funds are in compliance with the Federal Regulations, ESG State Rules, and all terms and conditions of the subaward.

The Department’s Compliance Monitoring Division performs monitoring of ESG sub-recipients based on an annual risk assessment. In 2016 a total of 68% of active sub-recipients were selected for monitoring. The scope of their review was focused on sub-recipients’ previous financial and performance history, Program Income, eligible costs, Match Funds, and supporting documentation, as needed. Our review indicated that TDHCA’s monitoring of sub-recipients is effective. One issue did arise in both our surveys and review of single audits. It was noted that some Sub-recipients did not meet the compliance requirements due to lack of proper monitoring of their collaborative partners.

¹ §200.74; Pass-through entity means a non-Federal entity that provides a subaward to a sub-recipient to carry out part of a Federal program.

² §200.331.a; All Pass-through entities must; Ensure that every subaward is clearly identified to the sub-recipient as a subaward and includes all the required information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
18-004.03	To ensure consistency and compliance among Sub-recipients OIA recommends that the Division establish more precise and direct guidance for sub-recipients and collaborative partners.	July 2, 2018	Abigail Versyp, HHPD Director and Earnest Hunt, Director of Subrecipient Monitoring

Management Response:

Management agrees that clear guidance is necessary to ensure consistency with subrecipient monitoring. Staff currently provides comprehensive web-based training to Subrecipients, which includes an implementation training for which registration is required. The implementation training series, for 2017 grantees, includes over 6 hours of training. Topics covered include an ESG overview, environmental requirements, Fair Housing, eligible activities, eligible participants, reporting, financial management, and contract highlights. This training is also available online so that Subrecipients may review the training on their own time on an as-needed basis. Additionally, there is an existing library of training on specific topics accessible online at any given time, and webinars are presented on topics of note on a regular basis. The training library is extensive, includes both webinars and fact sheets, and covers myriad topics. The specific topic of compliance monitoring was the subject of a monthly webinar co-hosted by Compliance Monitoring Division staff the month after the most recent contracts began. A training based on this webinar will be incorporated as part of the implementation training plan for FY 2019 awards. HHPD will work with the Compliance Division to develop and issue best practices for subrecipient monitoring on or before July 2, 2018.

I) Submission of monthly reports from Sub-recipients

ESG program Sub-recipients must submit a Monthly Performance Report (“MPR”) and a Monthly Expenditure Report (“MER”) through the Department’s electronic Community Affairs Contract System. For collaborative Sub-recipients, the lead agency is responsible for aggregating and submitting one set of comprehensive MPR / MERs capturing all the activities of the collaborative partners. The Department uses the financial and performance information submitted through these monthly reports to track the success and improve the administration of the program, to report performance data to the U.S Department of Housing and Urban Development (“HUD”) through the Consolidated Annual Performance and Evaluation Report (“CAPER”), and to report performance data to the Texas Legislature. The MPRs and MERs are due by the 15th of each month of the contract term.

The MPR collects demographic data of persons assisted through TDHCA ESG-funded activities, as well as information on outputs and outcomes achieved. The MER report contains Sub-recipients expenditures of program funds during the month being reported.

In our review we have noted that some Sub-recipients frequently missed the deadline for submitting their monthly reports. This condition could affect the accuracy and effectiveness of the reporting by the program and the Department to HUD and the Texas Legislature.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
18-004.04	To ensure timely reporting of MER and MPR, and gathering of necessary and important data, OIA recommends the program develop incentives for timely submission of reports	Ongoing	Abigail Versyp, Director of HHPD

Management Response:

Management recognizes that some Sub-recipients often miss deadlines for submitting their monthly reports. Staff works to incentivize timely reporting. During the last funding competition, ESG Applicants received negative points if they had been Subrecipients that had not submitted timely reports. Again, staff provides training and support to encourage Sub-recipients to report on time. As a normal course of business and as a function of the Community Affairs Contract system, Program staff cannot release disbursement of funding until performance reports are up-to-date. This means that there is a built-in strong monetary incentive to report timely and a strong disincentive to delay. The Department will continue to encourage timely submissions by continuing the existing training and support mechanisms already occurring and will continue to look for other ways to incentivize timely reporting.

J) Matching Fund requirements

According to CFDA 14.231, Metropolitan city and urban county recipients must match grant funds with an equal amount of funds from cash or in-kind sources such as services contributed by volunteers, the donation of materials and buildings, or the value of any lease on a building. The State must match all but \$100,000 of their awards, but must pass on the benefit of that \$100,000 exception to their sub-recipients that are least capable of providing matching amounts.

24 CFR §576.51.b states that in calculating the amount of matching funds, in accordance with 42 U.S.C.11375(a)(3)³, the time contributed by volunteers shall be determined at the rate of \$5 per hour. For purposes of this paragraph, the grantee will determine the value of any donated material or building, or of any lease, using a method reasonably calculated to establish a fair market value.

As stated earlier in section F, review of Matching Funds is included in the monitoring performed by Compliance Monitoring Division which is based on an annual risk assessment. The sub-recipients who scored low on the annual risk assessment, and were not selected for monitoring during a specific year, will not be reviewed for their compliance with Matching Fund requirements. However, risk assessment is performed quarterly based on the Department’s fiscal year. Any returning awardees will be risk assessed and reconsidered for monitoring if further funding is awarded.

³ 42 U.S.C.11375(a)(3); In calculating the amount of supplemental funds provided by a recipient under this part, a recipient may include the value of any donated material or building, the value of any lease on a building, any salary paid to staff to carry out the program of the recipient, and the value of the time and services contributed by volunteers to carry out the program of the recipient at a rate determined by the Secretary.

K) Other audit work

The Fort Worth Office of Community Planning and Development ("CPD") conducted an on-site monitoring review of FY 2010 Emergency Shelter Grant Program in June of 2014. They issued their report on August 8, 2014 which contained three findings of noncompliance. TDHCA submitted its response and corrective actions to the findings and after review all findings were closed. The next audit of ESG program is scheduled to be performed by HUD in July 2018.

OIA extends its sincere appreciation to management and staff of the ESG program for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/NS

cc:

Tim Irvine, Executive Director

Abigail Versyp, Director of HOME

Brook Boston, Deputy Executive Director of Fair Housing

Tom Gouris, Deputy Executive Director of Single Family Program