

AUDIT COMMITTEE MEETING OF JULY 28, 2010

Gloria Ray, Chair



Tom Gann, Member
Lowell Keig, Member

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

July 28, 2010
4:00 pm

TDHCA Headquarters
221 E. 11th Street, Room 116
Austin, TX

AGENDA

CALL TO ORDER, ROLL CALL

Gloria Ray, Chair

CERTIFICATION OF QUORUM

Gloria Ray, 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 Audit Committee Minutes for March 10, 2010
- Item 2 Presentation and Discussion of the status of internal audits
- Item 3 Presentation and Discussion of recent internal audit reports
- Item 4 Status of the follow-up review of ACS issues identified by KPMG as part of the Statewide Audit
- Item 5 Presentation and Discussion of the status of external audits
- Item 6 Presentation and Discussion of recent external audit reports
- Item 7 Presentation and Discussion of the status of prior audit issues

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

ADJOURN

Gloria Ray, 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.

BOARD SECRETARY
BOARD ACTION REQUEST
JUNE 28, 2010

Recommended Action

Approve Audit Committee Meeting Minute Summary for March 10, 2010.

WHEREAS, the Audit Committee Meeting Minute Summary for March 10, 2010, are hereby approved, with the approval to make corrections as directed by the Board.

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

**March 10, 2010
4:00 p.m.**

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 March 10, 2010 was called to order by Chair, Gloria Ray, at 4:00 p.m. It was held at the 221 E. 11th Street, Room 116, Austin, TX. Roll call certified a quorum was present.

Members Present:

Gloria Ray, Chair
Tom Gann, Member
Lowell Keig, Member

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.

No public comment.

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 Audit Committee Minutes for October 14, 2009
Motion by Mr. Gann to approve minutes; seconded by Ms. Ray; Mr. Keig not present; motion passed.

AGENDA ITEM 2 Presentation and Discussion of the Internal Audit Peer Review Results
No action taken.

AGENDA ITEM 3 Presentation, Discussion, and Possible Approval of the Audit Committee Charter and Board Resolutions
Motion by Mr. Gann to approve Resolution 10-017; seconded by Mr. Keig; passed unanimously.

AGENDA ITEM 4 Presentation and Discussion of Audit Results from Deloitte and Touche
Communications with Audit Committee
Opinion Audit on FY 2009 Basic Financial Statements
Opinion Audit on FY 2009 Revenue Bond Program Financial Statements
Opinion Audit on FY 2009 Computation of Unencumbered Fund Balances

Report to Management (Management Letter)

Julia Petty, Deloitte and Touche provided testimony.

Don Atwell, provided testimony.

Motion by Mr. Keig to accept report; seconded by Mr. Gann; passed unanimously.

AGENDA ITEM 5 Presentation and Discussion of the status of External Audit Reports

No action taken.

AGENDA ITEM 6 Presentation and Discussion of Recent Internal Audit Reports

No action taken.

AGENDA ITEM 7 Presentation and Discussion of Status of Prior Audit Issues

No action taken.

AGENDA ITEM 8 Discussion of Hotline/Fraud Investigation Workload

No action taken.

AGENDA ITEM 9 Discussion of Davis Bacon Requirements

No action taken.

EXECUTIVE SESSION

At 5:51 p.m. Ms. Ray convened the Executive Session of the Audit Committee.

OPEN SESSION

At 6:24 p.m. Ms. Ray reconvened the Open Session and announced that no action had been taken during the Executive Session of the Audit Committee and certified that the posted agenda had been followed.

ADJOURN

Since there was no further business to come before the Committee, Gloria Ray adjourned the meeting of the Audit Committee at 6:25 p.m. on March 10, 2010.

Ms. Brooke Boston, Board Secretary

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

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and discussion of the status of internal audits.

Required Action

None, information item only.

Background

A discussion of the status of the audit work plan for fiscal year 2010.

Recommendation

None, information item only.

**Department of Housing and Community Affairs
Internal Audit Division – Status of Fiscal Year 2010 Internal Audit Plan**

Program Area/Division	Audit	Status
Manufactured Housing	Occupational Licensing	Completed
Community Affairs - Weatherization	Weatherization Program Monitoring	Completed
Neighborhood Stabilization Program	Neighborhood Stabilization Program	Planning
Financial Administration	Accounting Operations	Reporting Estimated Release Date 8/20/10
Disaster Recovery Program	Construction Quality	Fieldwork Estimated Release Date 8/20/10
All Divisions	Ethics Program	Completed
Information Systems	Information Technology Governance	Fieldwork Estimated Release Date 8/27/10
Program Area/Division	Management Assistance/ Special Projects	Comments
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2010 Audit Plan	Completed
Internal Audit	Receive Peer Review	Completed
Internal Audit	Perform Peer Review at Another State Agency	Completed
Internal Audit	Preparation and Submission of the Fiscal Year 2009 Annual Internal Audit Report	Completed
Internal Audit	Coordinate with External Auditors	Ongoing
Internal Audit	Monitor ARRA Issues	Ongoing
All Divisions	Follow-up on the Status of Prior Audit Issues	Ongoing
All Divisions	Tracking the Status of Prior Audit Issues	Ongoing
All Divisions	Tracking, Follow-up and Disposal of Fraud Hotline Calls	Ongoing

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and discussion of recent internal audit reports.

Required Action

None, information item only.

Background

A discussion of the following internal audit reports:

- **An Internal Audit Report on the Weatherization Assistance Program's Monitoring Process**
Generally, the Weatherization Assistance Program has a well-designed and comprehensive monitoring process and has taken steps to prepare for the influx of additional funding from ARRA. However, the Department can make further enhancements to increase efficiency, communicate the results of its monitoring efforts to the subrecipients more timely, and ensure that all completed units have an opportunity to be selected for monitoring.

The overall objective of this audit was to determine if the monitoring process is designed to allow the Department to identify deficiencies and non-compliance with WAP and ARRA rules and requirements.

- **An Internal Audit of the Ethics Program**
The Department has an effective ethics program, but communication of the program could be further enhanced to ensure that all employees receive periodic ethics training. In addition, the ethics policy should be revised to prohibit the appearance of impropriety in all ethical matters.

The Institute of Internal Auditors' *Professional Practices Framework* (Standard 2110.A1) requires that internal audit periodically evaluate the Department's ethics-related objectives, programs and activities. The overall objective of this audit was to evaluate the effectiveness of the ethics program and to determine if the Department's employees are aware of the ethics program.

Recommendation

None, information item only.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

April 27, 2010

BOARD MEMBERS
C. Kent Conine, *Chair*
Gloria Ray, *Vice Chair*
Leslie Bingham Escarcño
Tom H. Gann
Lowell A. Keig
Juan S. Muñoz, Ph.D.

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

Re: Internal Audit Report on the Weatherization Assistance Program's Monitoring Process

Attached is the Internal Audit report on the Weatherization Assistance Program's (WAP) Monitoring Process. The overall objective of the audit was to determine if the monitoring process is designed to allow the Department to identify deficiencies and non-compliance with WAP and ARRA rules and requirements.

WAP has a well-designed and comprehensive monitoring process. However, the Department can make further enhancements to increase efficiency, communicate the results of its monitoring efforts to the subrecipients more timely, and ensure that all completed units have an opportunity to be selected for monitoring.

The Program Services Division is responsible for the on-site monitoring of WAP subrecipients' compliance with the Davis-Bacon Act for WAP projects in which ARRA funds are expended. It may be more efficient for the Energy Assistance program officers to assist in performing the on-site monitoring of Davis-Bacon Act compliance since they are already making on-site visits to the subrecipients as part of their regularly scheduled monitoring.

Monitoring of WAP subrecipients is important to determine if program objectives are met, resources are used effectively, and laws and regulations are followed. In order to be effective, monitoring should be performed in an independent and objective manner. To minimize any possibility of the appearance of a conflict of interest, the WAP monitoring function should be separated from the program function.

If you have any questions regarding this audit, please contact me at (512) 475-3813. We appreciate the assistance and cooperation we received from management and staff.

Sincerely,

A handwritten signature in cursive script that reads "Sandra Q. Donoho".

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

Encl. (1)

cc: Michael Gerber, Executive Director
Tim Irvine, General Counsel and Chief of Staff
Brooke Boston, Deputy Executive Director for Community Based Programs
Michael De Young, Director of Community Affairs

Executive Summary

The American Recovery and Reinvestment Act of 2009 (ARRA) significantly expanded the Texas Department of Housing and Community Affairs' (Department) Weatherization Assistance Program (WAP). The objective of this audit was to determine if the WAP monitoring process is designed to allow the Department to identify deficiencies and non-compliance with WAP and ARRA rules and requirements. WAP is managed by the Energy Assistance section (Energy Assistance) of the Community Affairs Division. WAP received \$13,881,694 in program year 2008. The Department anticipates receiving \$326,975,732 in ARRA funding for WAP between April 2009 and March 2012. Besides the increase in funding, the most significant change resulting from ARRA is the requirement that subrecipients comply with the Davis-Bacon Act, which is a federal law that requires employers to pay their workers prevailing wages, as well as other requirements (see text box on page 5.) The Davis-Bacon Act was not previously applicable to this program. Currently, the Program Services Division (Program Services) is responsible for the on-site monitoring of subrecipients' compliance with the Davis-Bacon Act. However, it may be more efficient for the Energy Assistance program officers to assist in performing the on-site monitoring of Davis-Bacon Act compliance since they are already making on-site visits to the subrecipients as part of their regularly scheduled monitoring. In addition, it is essential for the WAP program staff to work together with the Program Services staff and to have shared responsibility for the Davis-Bacon Act monitoring. On-site Davis-Bacon Act monitoring has not yet started.

Energy Assistance has a well-designed and comprehensive monitoring process for WAP but it can make further enhancements to increase efficiency, communicate the results of its monitoring efforts to the subrecipients more timely and ensure that all completed units have the potential to be selected for monitoring. The Department of Energy (DOE) requires that monitoring reports be issued within thirty days of the monitoring visit. We reviewed the 33 monitoring reports available for program year 2008 and found that 18 reports (54.5%) were not issued within the thirty-day deadline required by DOE. Without timely feedback, subrecipients may be unaware of the identified deficiencies and may not be able to correct them in a timely manner. Energy Assistance should follow the DOE's thirty-day deadline for issuing monitoring reports and ensure that the WAP policies and procedures are consistent with the DOE's Weatherization Grant Guidelines.

Monitoring of WAP subrecipients is important to determine if program objectives are met, resources are used effectively and laws and regulations are followed. In order to be effective, monitoring must be performed in an independent and objective manner. To eliminate the possibility of the appearance of a conflict of interest, the monitoring function should be separated from the program function.

Other Key Points

- Energy Assistance has been successful in meeting its goal to monitor 10% of the weatherized units during the past two program years. However, due to the timing of the monitoring visits, the population of units inspected does not necessarily include the units weatherized at the end of the program year. Because the majority of the weatherized units are completed at the end of the program year, this creates a risk that some units may potentially never be selected for monitoring.
- Energy Assistance has controls in place to manage the significant increase in staff including: documented job descriptions, a documented monitoring plan, standardized monitoring instruments, easy access to management and peers, an effective communication structure and a variety of classroom and on the job training opportunities. However, there is not a set training curriculum for the program officers. A set training curriculum is important to ensure consistency.
- Energy Assistance has developed a comprehensive monitoring guide for program officers to use in performing monitoring visits. However, the guide has been in draft form since August 1, 2009 and has not been finalized and approved by management or distributed for program officers to use. In addition, the Labor Standards - American Recovery Reinvestment Act (ARRA) and Weatherization Assistance Program Standard Operating Procedures are in draft form and have not been finalized and approved by management.
- Although Energy Assistance has a system for tracking the monitoring process, it does not contain all of the elements recommended by DOE. The DOE recommends tracking the findings, corrective actions, deliverables, due dates, and final resolutions.

Summary of Recommendations

- Energy Assistance should ensure that any units completed during the program year that were not completed at the time of the monitoring visit be included in the population of units inspected during subsequent monitoring visits.
- Energy Assistance should ensure that all program officers attend a designated curriculum of classes and ensure on the job training is provided by an experienced staff member.
- Program Services should finalize and communicate policies and procedures for monitoring WAP and compliance with the Davis-Bacon Act.

- Energy Assistance should ensure the system used for tracking monitoring activities includes all of the elements recommended by the DOE.

Summary of Management Responses

Management is in general agreement with the results of the audit and is making changes as described in the detailed responses to each chapter.

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Chapter 1

The WAP Monitoring Process is Well-Designed but Could be Further Enhanced

The Weatherization Assistance Program (WAP) is managed by the Energy Assistance section (Energy Assistance) of the Community Affairs Division. Energy Assistance has a comprehensive monitoring process for WAP, but it can make further enhancements to increase efficiency, communicate the results of its monitoring efforts to the subrecipients more timely and ensure that all completed units have an opportunity to be selected for monitoring.

The ARRA funding requires that WAP comply with the Davis-Bacon Act, which was not previously applicable to this program. Currently, the Program Services Division (Program Services) is responsible for the on-site monitoring of subrecipients' compliance with the Davis-Bacon Act. However, it may be more efficient for the Energy Assistance program officers to assist in performing the on-site monitoring for compliance with the Davis-Bacon Act since they are already making on-site visits to the subrecipients as part of their regularly scheduled monitoring. In addition, it is essential for the WAP program staff to work together with the Program Services staff and to have shared responsibility for the Davis-Bacon Act monitoring. On-site Davis-Bacon Act monitoring has not yet started.

The Department of Energy (DOE) requires that monitoring reports be issued within thirty days of the monitoring visit. We reviewed the 33 monitoring reports available for program year 2008 and found that 18 reports (54.5%) were not issued within the thirty-day deadline required by DOE. Without timely feedback, subrecipients may be unaware of the identified deficiencies and may not be able to correct them in a timely manner.

In addition, the DOE Weatherization Grant Guidance requires that the Department perform a comprehensive monitoring of each subrecipient at least once per year, which includes inspecting 5% of the completed units. The Department's goal is to monitor at least 10% of the completed units. Energy Assistance has been successful in meeting its 10% monitoring goal for the past two program years. However, units completed after the

The Davis-Bacon Act

The Davis-Bacon Act is a federal law that requires workers on public works projects to be paid at least the prevailing wage for the area. Davis-Bacon Act requirements are in effect for all ARRA funded projects. Any project that is funded or assisted in whole or in part by recovery funds is subject to the Davis-Bacon Act. The Department is responsible for ensuring WAP subrecipients are in compliance with the Davis-Bacon Act requirements.

Subrecipients, contractors and sub-contractors are required to include wage determination information on bid solicitations, assistance agreements and resulting contracts. In addition, subrecipients, contractors and sub-contractors are required to ensure that all workers under a covered contract are paid on a weekly basis, review the payrolls for compliance and submit the weekly certified payroll records to the Department. The subrecipients, contractors and sub-contractors are also required to maintain payrolls and basic records relating to payrolls during the course of the weatherization work and preserve them for a period of three years.

monitoring visit but before the end of the program year are not included in the population of units subject to monitoring during the next year's monitoring visits. This creates the risk that some units may potentially never be selected for monitoring.

Chapter 1-A

Energy Assistance Should Consider Performing the On-Site Davis-Bacon Act Monitoring

The WAP monitoring process has multiple phases, which include a comprehensive on-site monitoring review, a desk review, onsite-client file reviews and a preliminary review, which is specific to ARRA funding. These reviews include the use of standardized monitoring instruments, which are designed to evaluate the subrecipients' program administration and compliance with key contract provisions and laws and regulations. One of the major provisions applicable to ARRA funding is the Davis-Bacon Act. During our analysis of the monitoring instruments, we noted that the monitoring instruments do not include questions for monitoring for Davis-Bacon Act requirements. Previously Davis-Bacon Act requirements were not applicable to WAP.

The Davis-Bacon Act monitoring function for WAP is housed in Program Services, which has labor standards specialists with specialized knowledge of the Davis-Bacon Act. Program Services has not yet begun on-site Davis-Bacon Act monitoring. Currently Program Services is training subrecipients on the Davis-Bacon Act requirements, reviewing certified payrolls submitted by the subrecipients and conducting preconstruction conferences with the subrecipients.

Having the Program Services staff responsible for the on-site portion of the Davis-Bacon Act monitoring may not be as efficient as having the Energy Assistance program officers assist in performing the on-site Davis-Bacon Act monitoring. Because the program officers are already conducting site visits to the subrecipients in order to perform their regular monitoring functions, it may be more cost effective to have them also assume responsibility for the on-site portion of the Davis-Bacon Act monitoring function.

Recommendation

The Department should consider requiring the Energy Assistance program officers to assist in performing the on-site Davis-Bacon Act monitoring to ensure compliance with prevailing wage requirements for the ARRA funded WAP activities.

Management's Response

Management agrees that it would be beneficial for EA staff that conduct monitoring activities to have familiarity with Davis-Bacon and to incorporate certain basic Davis-Bacon compliance questions into their monitoring protocols. However, given the highly technical nature of the Davis-Bacon Act and the specialized expertise that has been amassed in Program Services, management believes there is benefit to retaining the Program Services role in Davis-Bacon monitoring. The potential cost savings to be

achieved in consolidation of these activities under EA WAP program monitoring are not believed sufficiently great to offset the loss of compliance benefits derived from a rigorous and knowledgeable Davis-Bacon monitoring by Program Services staff.

Chapter 1-B

Monitoring Reports Should Be Issued Timely

The Community Affairs Division's Monitoring Guidelines state that the monitoring report is to be issued within forty-five days of the monitoring visit. However, according to the Weatherization Grant Guidance issued by the Department of Energy (DOE), these reports should be issued within thirty days of the end of the monitoring visit.

We reviewed the monitoring reports for all monitoring visits conducted in program year 2008. Of the 33 monitoring reports reviewed, 18 reports (54.5%) were not issued within the thirty day deadline required by DOE and 16 of those 18 reports (48.5%) were not issued within Energy Assistance's forty-five day deadline. The average number of days in which the reports were issued to the subrecipient was 50.5 days. In one instance 205 days passed between the end of the monitoring visit and the report issuance, which is more than six months.

If Energy Assistance does not issue the monitoring reports timely, the subrecipients may be unaware of the extent or severity of the identified deficiencies and may not correct them in a timely manner.

Recommendations

Energy Assistance should:

- follow the DOE's thirty-day deadline for issuing monitoring reports so that subrecipients can implement the recommended improvements timely, and
- ensure that the Energy Assistance monitoring guidelines are consistent with the DOE's Weatherization Grant Guidance.

Management's Response

Regarding late issuance of reports, staff agrees with the auditor; staff will revise its guidelines to mirror those of the DOE Weatherization Grant Guidance and will immediately adhere to the revised guideline of thirty days. EA has also instituted an enhanced tracking system for monitoring reports that will track when the visit is completed, when the report is due, when the report is sent, when the response is received, and when the report is closed. Management notes that more expedited verbal follow up with subrecipients occurs in situations where a monitoring visit resulted in significant concerns relating to possible misuse of funds or failure to adhere to federal program regulations. Discussions with subrecipients ensues immediately including, when necessary, placement of the subrecipient on cost reimbursement status, which prevents them from drawing down funds until all expenditures are substantiated. Target date for completion – May 1, 2010.

Chapter 1-C

All Weatherized Units Should be Subject to On-Site Inspections

The DOE Weatherization Grant Guidance requires that the Department perform a comprehensive monitoring of each subrecipient at least once per year. The comprehensive monitoring must include a review of client files and subrecipient records as well as an actual inspection of 5% of the completed units. Energy Assistance's WAP plan, revised March 5, 2010, states that Energy Assistance plans to review client files and inspect at least 5% of the completed units. Prior to the revised plan, Energy Assistance's goal was to inspect 10% of the units weatherized at the time of the monitoring visit. Energy Assistance has been successful in meeting its 10% monitoring goal for DOE weatherized units the past two program years as indicated in Table 1.

Program Year	# of Units Inspected +	# of Units Weatherized+	% of Units Inspected
2007	310	1,774	17.5%
2008*	211	1,740	12.1%
2009 (as of 1/31/10)	108	2,914	3.7%
ARRA (as of 1/31/10)	52	344	15.1%
* PY 2008 does not include the number of units inspected for one subrecipient because the monitoring instrument was not available for that subrecipient. + Includes DOE weatherized units only. Units weatherized under the Low Income Home Energy Assistance Program (LIHEAP) are not included.			

Table 1

Due to the timing of the monitoring visits, the population of units inspected does not necessarily include the units weatherized at the end of the program year. Because the majority of the weatherized units are completed at the end of the program year (see Table 2), this creates a risk that some units may potentially never be selected for monitoring. When a monitoring visit occurs in February, for example, any units completed after the February monitoring visit but before the end of the closeout period on May 31st would not be part of the population of completed units eligible for monitoring. In addition, these units are also not included in the population for the following program year's monitoring visit and would therefore never be monitored. Subrecipients are aware of this timing process. The increase in volume of work at the end of the program year could lead to unsatisfactory performance. The pressure to expend all awarded funds at the end of the year could cause unauthorized transactions to occur and increases the risk that any unauthorized transactions could remain undetected.

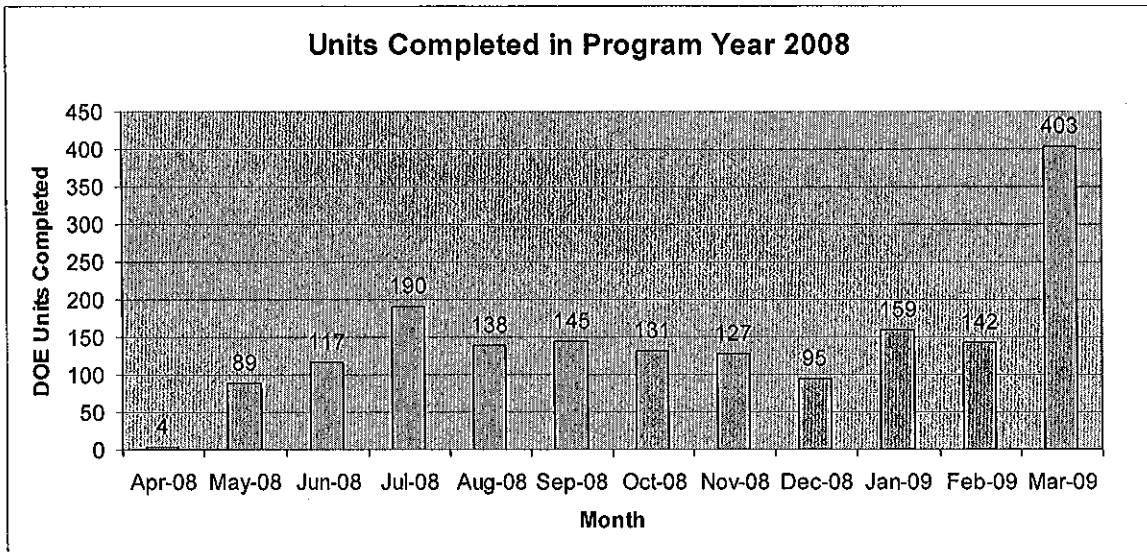


Table 2

Recommendation

Energy Assistance should ensure that any units completed during the program year that were not completed at the time of the monitoring visit be included in the population of units available for inspection during subsequent monitoring visits.

Management's Response

Staff will implement the audit recommendation and adjust monitoring guidelines accordingly to be in effect for ARRA WAP, 2010 non-ARRA WAP funds and all ensuing WAP program years. The aggressive monitoring plan for ARRA WAP, which requires quarterly monitoring visits through the contract period, would likely also have mitigated this risk. Target date for completion – May 1, 2010.

Chapter 2

Energy Assistance Monitoring Duties Should Be Clearly Separated from the Energy Assistance Program Duties

Monitoring of the WAP subrecipients is important to determine if program objectives are met, resources are used effectively and laws and regulations are followed. To be effective, monitoring must be performed in an independent and objective manner. Since the program officers also answer the subrecipients' programmatic questions and provide guidance and support to the subrecipients, the program officers could be in the position of monitoring the subrecipient on the program guidance that they previously provided. This could potentially impair the independence of the program officer. To minimize the possibility of the appearance of a conflict of interest, the monitoring function should be separated from the program function.

Energy Assistance expects the number of program officers to increase significantly due to the increase in funds from ARRA. The number of new program officers added in such a short time makes it especially important that they receive sufficient and relevant training in order to perform their job duties. Energy Assistance does not have a set curriculum for program officers. Developing a set core curriculum for the program officers would provide consistency and ensure that they are all properly trained. In addition, Energy Assistance should not rely on training provided by the subrecipients since they are the entities that the program officers are charged with monitoring. Any on-the-job training should be provided by an experienced program officer in order to ensure that the training is in line with the Department's and the DOE's guidelines and best practices.

Chapter 2-A

Monitoring Activities Should Be Clearly Distinguished From Program Activities

Monitoring of the WAP subrecipients is important to determine if program objectives are met, resources are used effectively, and laws and regulations are followed. In order to be effective, monitoring must be performed in an independent and objective manner. The program officers are responsible for monitoring the program's subrecipients but they also have some responsibility for providing ongoing technical assistance and training. When they are monitoring the subrecipients, the program officers are seen as the face of the Department and are often asked programmatic questions. The program officers are responsible for answering these programmatic questions for their assigned subrecipients. It is possible that subrecipients may perceive the program officers as technical advisors who dictate how WAP should be administered and not as monitors who are responsible for evaluating the subrecipients' performance in administering the program.

Monitors, like auditors, must provide an impartial, unbiased assessment and avoid any possible conflicts of interest. Some of the current duties of the program officers appear to be program advisor duties. Since the program officers answer the subrecipients' programmatic questions and provide guidance and support to the subrecipients, the program officers could be placed in the position of monitoring the subrecipient on

program guidance that they previously provided. This can create the potential for impaired objectivity by the program officer. In addition, there is also the risk that issues may not be brought forward by the program officer, program manager, or the division director as the issue may reflect on the quality of the guidance given to the subrecipient or may negatively reflect on the performance of the Energy Assistance staff.

Recommendation

The Department should consider separating the Energy Assistance monitoring responsibilities from the programmatic responsibilities.

Management's Response

Management agrees with the observations and the objective, but the need to maintain consistent program operations in an effort to administer ARRA WAP on a rapidly moving ongoing basis, poses a challenge. Therefore until such time as there is sufficient time and adequate staffing to segregate the functions fully, management intends to implement a requirement that person advising a subrecipient as program staff may not also be the person monitoring that subrecipient. This will be augmented by a policy that bars subrecipients from communicating about substantive programmatic issues with any program staff other than their designated staff person and his or her chain of command. Target date for completion – May 15, 2010.

Chapter 2-B

Ensure Consistency by Enhancing Training for Program Officers

The Energy Assistance program officers have increased from five in program year 2007 to eleven in program year 2009. Energy Assistance plans to further increase the number of program officers to nineteen. Of the eleven current program officers, seven have joined the Department since September 2009. Energy Assistance has controls in place to manage the significant increase in staff, including: documented job descriptions, a documented monitoring plan, standardized monitoring instruments, easy access to management and peers, an effective communication structure and a variety of classroom and on-the-job training opportunities.

The significant growth in staff in such a short time span makes it especially important that program officers receive sufficient and relevant training in order to perform their duties. We reviewed the training attended by the program officers and found it to be relevant to their job duties. However, Energy Assistance does not have a set curriculum for program officers. Instead, program officers determine what training they would like to attend. A core curriculum for the program officers would provide consistency and help ensure that they are all properly trained. The core curriculum should include the courses required to obtain a "Certified Renovator" designation and training in lead safe weatherization methods because this certification and training is required by the DOE's WAP grant guidance.

Two new program officers were sent to a subrecipient for one-on-one unit assessment training from a subrecipient employee. The training was not attended by an experienced program officer who would be able to ensure that the new program officers were trained on the correct way to perform assessments in compliance with the Department's guidelines. Energy Assistance management wanted new program officers to observe a final inspection performed in a real world setting to give the program officers a sense of the work environment during an actual monitoring visit. Because the subrecipient who provided the training earned national recognition by the DOE on their Weatherization Assistance Program, Energy Assistance utilized it as a model for the new program officers.

Program officers may learn monitoring practices that are inconsistent with the Department monitoring guidelines if they are trained by a subrecipient in the absence of a more experienced program officer who could affirm, refute, or further expand on the practices as they are observed. Program officers may place too much reliance on the subrecipient because the subrecipient provided the training and may be reluctant to accurately identify deficiencies that arise at that subrecipient. In addition, the subrecipient could be resistant to monitoring findings if they were providing training to program officers, which could suggest a conflict of interest or impairment of independence on the part of the program officer.

Recommendations

Energy Assistance should ensure that all program officers attend a designated curriculum of classes, which should include certified renovator and lead safe weatherization courses since these are required by the DOE grant guidance. In addition, Energy Assistance should not rely on training provided by the subrecipients since they are the entities the program officers are charged with monitoring. Any on-the-job training should be provided by an experienced program officer in order to ensure that the training provided to the new program officers is in line with the Department's and DOE's guidelines and best practices.

Management's Response

Staff will implement the audit recommendation. A formalized set core curriculum will be created to ensure consistency in training for newly hired program officers which, among other things, will include training required by DOE Grant Guidance and require that new program officers that visit subrecipients for training only do so when with a senior program officer. Target date for completion – May 30, 2010.

Chapter 3

Policies and Procedures for Monitoring WAP and Davis-Bacon Should Be Finalized

Energy Assistance has developed a monitoring guide for program officers to use in performing monitoring visits. The guide will help program officers to monitor the WAP program consistently. However, the guide has been in draft form since August 1, 2009 and has not been finalized and approved by management or distributed for program officers to use. In addition, Program Services' Labor Standards - American Recovery Reinvestment Act (ARRA) and Weatherization Assistance Program Standard Operating Procedures are in draft form and have not been finalized and approved by management. The Energy Assistance monitoring guide and the Program Services policies and procedures for monitoring the Davis-Bacon Act requirements related to ARRA WAP should be finalized. Once they are finalized, they should be clearly communicated to the program officers and labor standards staff respectively.

Energy Assistance tracks monitoring activities as required by DOE. However, Energy Assistance should ensure that the system used for tracking monitoring activities includes all of the elements recommended by the DOE, including: findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. This can be accomplished by enhancing the existing EXCEL spreadsheet to include all of the recommended elements or using an ACCESS database that captures all of the recommended elements.

Chapter 3A

Policies and Procedures for WAP Monitoring Should be Finalized

The Community Affairs' monitoring guide has been in draft form since August 1, 2009 and has not been finalized and approved by management or distributed to program officers to use. Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for program officers, the program officers may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the program officers.

In addition, we noted an inconsistency between the monitoring report submission deadlines in the draft monitoring guide compared to the monitoring report submission guidelines in DOE's Weatherization Grant Guidance. (See Chapter 1-B)

Recommendation

The draft monitoring guide should be finalized and approved by the Director of Community Affairs. Once finalized, the policies and procedures should be clearly communicated to the program officers.

Management's Response

Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

Chapter 3B

Polices and Procedures for Davis-Bacon Monitoring of ARRA WAP Should be Finalized

The Labor Standards - American Recovery Reinvestment Act (ARRA) and Weatherization Assistance Program Standard Operating Procedures are in draft form and have not been finalized and approved by management.

Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for the labor standards staff, the staff may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the staff. An approved set of polices and procedures will allow the Department to monitor subrecipients' compliance with the Davis-Bacon Act consistently.

Recommendation

Program Services' policies and procedures for monitoring the Davis-Bacon Act requirements related to ARRA WAP should be finalized. Once they are finalized, they should be clearly communicated to the labor standards staff.

Management's Response

Staff concurs and will implement the audit recommendation. Target date for completion – May 1, 2010.

Chapter 3C

Ensure that the Monitor Tracking System Includes All DOE-Required Elements

Although Energy Assistance has a system for tracking the monitoring process, it does not contain all the elements recommended by the DOE. The DOE recommends tracking the findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken and final resolutions. The current monitoring tracking system is an EXCEL spreadsheet maintained by the Project Manager of Monitoring. The spreadsheet includes when monitoring visits occurred and tracks related milestones such as when the report is sent out, when report responses are due, when follow-up letters are sent, when responses are received, and when the findings are closed out. However, the individual monitoring reports must be reviewed to determine the findings, the responsible parties, the corrective action recommended, and the final resolution because none of these

elements are captured in the spreadsheet tracking system. These reports are maintained in the subrecipient's folder on a shared drive at the Department. This issue was identified in a prior internal audit report (*An Internal Audit Report on the Energy Assistance Weatherization Assistance Program – Subrecipient Monitoring, Report #1012*) and the recommendation to track these elements has not been implemented.

The DOE Program Year 2010 Weatherization Program Notice (# 10-1, Effective December 18, 2009) recommends that: "*Major findings from the subgrantee monitoring visits and financial audits should be tracked by the grantee to final resolution. DOE recommends that the tracking record developed by the grantee include, but not be limited to: findings, including success stories, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions.*"

Recommendation

Energy Assistance should ensure the system used for tracking monitoring activities includes all of the elements recommended by the DOE, including: findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. This can be accomplished by enhancing the existing EXCEL spreadsheet to include all of the recommended elements or using an ACCESS database that captures all of the recommended elements.

Management's Response

Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

Appendix A

Objectives, Scope and Methodology

Objectives

The overall objective of the audit was to determine if the monitoring process is designed to allow the Department to identify deficiencies and non-compliance with WAP and ARRA rules and requirements.

Specifically, our objectives were to determine:

- if program officers have the resources needed to provide timely and effective monitoring of the WAP,
- if program officers have sufficient training and support to effectively monitor WAP,
- if monitoring deficiencies are communicated timely, tracked and followed up on by WAP staff, and
- if controls are in place to ensure compliance with rules and regulations including the Davis-Bacon Act.

Scope

- WAP monitoring for program years 2007, 2008 and 2009.
- American Recovery and Reinvestment Act Weatherization Assistance Program contracts for the period beginning September 2009.

Methodology

The methodology consisted of evaluating the monitoring instruments and processes designed to monitor WAP against the Department's policies and procedures, federal and state rules and regulations and best practices to determine whether they are designed to ensure WAP monitoring activities identify deficiencies and instances of non-compliance.

More specifically:

- We observed the monitoring process to determine how the program officers perform their duties and use the monitoring instruments.
- We observed the monitoring performed to determine if it is consistent with departmental policies and procedures and best practices.
- We observed monitoring visits to determine if there are areas that should be included in monitoring but were not.
- We evaluated the monitoring visits performed to determine if 5% of the weatherized units were inspected, and if all of the sub-recipients received scheduled monitoring visits.
- We observed how Energy Assistance manages the workload of the program officers.
- We evaluated the staff turnover and hiring plan to determine if there are enough program officers.

An Audit of the Weatherization Assistance Program's Monitoring Process

- We reviewed the plan for training program officers and subrecipients.
- We evaluated the monitoring instruments used by the program officers.
- We reviewed how Energy Assistance tracks deficiencies noted by program officers.
- We identified controls in place to ensure compliance with federal rules and regulations including (but not limited to) the Davis-Bacon Act.

We used the following documents as criteria:

- Texas Department of Housing and Community Affairs Standard Operating Procedure 1100.01, Section 5.6.
- Texas Department of Housing and Community Affairs, Community Affairs Division, Monitoring Guidelines.
- Texas Administrative Code, Title 10, Part 1, Chapter 5, Subchapter A, Rule §5.16 and §5.17.
- Weatherization Program Notice (WPN) 08-01 issued by the Department of Energy.
- Weatherization Program Notice (WPN) 10-1 issued by the Department of Energy.
- Texas Department of Housing and Community Affairs Program Year 2009 Department of Energy State Plan for Weatherization (Draft).
- Texas Department of Housing and Community Affairs US Department of Energy State Plan 2009 ARRA Weatherization Assistance Program.
- LIHEAP Detailed Plan Public Law 97-35 as amended Fiscal Year 2010
- Davis-Bacon and Related Acts.
- The Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) Standard 1120 and 1130.

Type of Audit

This audit was a performance audit of the Weatherization Assistance Program's monitoring process.

Report Distribution

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

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

Project Information

Audit fieldwork was conducted from January 2010 through March 2010. The 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:

Betsy Schwing, CPA, CFE, Audit Project Manager
Jill Borgman
Nicole Elizondo, CFE, CICA
Derrick Miller

Appreciation to Staff

We would like to extend our sincere appreciation to management and staff of Energy Assistance and Community Affairs for their cooperation and assistance during the course of this audit.

Appendix B

Background

The Weatherization Assistance Program (WAP) is designed to reduce energy costs for low-income families, particularly the elderly, people with disabilities, and children, by improving the energy efficiency of their homes while ensuring their health and safety. The Texas Department of Housing and Community Affairs (Department) does this by helping low-income customers control their energy costs through the installation of weatherization materials and consumer education. The Department is responsible for administering the WAP with funds from the US Department of Energy (DOE), Low Income Home Energy Assistance Program (LIHEAP) and Investor Owned Utility Program funds. WAP is administered through 33 subrecipients (community action agencies and other nonprofits, including units of local government), which collectively cover all 254 counties in Texas. In addition, in FY 2009 WAP expanded to include eleven additional subrecipients (cities) due to the increase in funding related to the American Recovery and Reinvestment Act (ARRA).

Typically, weatherization work consists of a combination of the following based on an energy audit of a unit or use of a DOE approved priority list:

- caulking,
- weather-stripping,
- adding ceiling, floor, and wall insulation,
- patching holes in the building,
- performing duct work, and
- tune-up, repair or replacement of energy inefficient heating and cooling systems.

The Department is responsible for ensuring that subrecipients are administering the program in accordance with their contract and with associated federal and state laws and regulations. This is done through the Community Affairs Division's Energy Assistance section (Energy Assistance.) As part of the monitoring process, Energy Assistance is responsible for performing desk-reviews and on-site monitoring of each WAP subrecipient.

The Department is also responsible for ensuring subrecipients are in compliance with the Davis-Bacon Act requirements for ARRA funds, which are new to weatherization work in Texas. The Davis-Bacon Act is a federal law that requires workers on public work projects to be paid at least the prevailing wage for the area. The Davis-Bacon Act was included as part of the laws and regulations required under ARRA and therefore all weatherization work conducted under ARRA funding is subject to the Davis-Bacon Act.

An Audit of the Weatherization Assistance Program's Monitoring Process

WAP received \$13,881,694 in program year 2008. As a result of the American Recovery and Reinvestment Act (ARRA), the Department received an additional \$326,975,732 for WAP. See table 2 for the source and amounts of all of the Department's weatherization funding.

Funding Source	Program Year 2007	Program Year 2008	Program Year 2009
Department of Energy	4,981,976	5,549,413	19,793,889
LIHEAP	6,753,806	7,430,750	26,446,516
Other (Investor Owned Utilities)	2,182,542	901,531	1,082,873
ARRA (for the grant period April 2009 through March 2012)	0	0	326,975,732
Total Weatherization Funding	\$13,918,324	\$13,881,694	\$374,299,010

Table 3



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhea.state.tx.us

Rick Perry
GOVERNOR

Michael Gerber
EXECUTIVE DIRECTOR

BOARD MEMBERS
C. Kent Conine, *Chair*
Gloria Ray, *Vice Chair*
Leslie Bingham Escareño
Tom H. Gann
Lowell A. Keig
Juan S. Muñoz, Ph.D.

July 12, 2010

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

Re: An Internal Audit of the Ethics Program

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) ethics program. The objectives of this audit were to evaluate the effectiveness of the ethics program and to determine if the Department's employees are aware of the ethics program. The Department has an effective ethics program, but communication of the program could be further enhanced to ensure that all employees receive periodic ethics training. In addition, the ethics policy should be revised to prohibit the appearance of impropriety in all ethical matters.

A survey conducted by internal audit indicated that the majority of the Department's employees are aware of the ethics policy. Of the 191 employees who responded to the survey, 172 (90.1%) stated that they understood the Department's policy regarding ethics. However, the Department's goal is for all employees to understand the ethics policy in order to make good ethical decisions.

An ethics communication strategy is a major component of an effective ethics program. The Department should strengthen its ethics communication strategy. Without an effective communication strategy, management may miss opportunities to increase employees' awareness of ethics-related issues. The ethics communication strategy should include training, periodic communications from management regarding ethical issues, and an annual acknowledgment that employees have read and are aware of the ethics policy.

Although employees are provided with handouts regarding ethical issues when they are hired, the Department does not update this knowledge with periodic ethics training. Without periodic training, employees may not continue to be aware of management's expectations regarding ethical issues. The Department should provide ethics training to its employees at least annually. Training efforts may include classroom training, or informal "brown bag" and round table discussions on ethics-related matters. Additionally, "Ask the Ethics Advisor" articles could be added to the Electronic Water Cooler (Intranet web site) periodically.

In addition to the annual letter reminding employees how to report fraud, waste and abuse, executive management could send out quarterly emails with reminders regarding ethical topics such as: accepting gifts, dealing with confidential information, and engaging in political activities. To ensure employees are aware of the importance of ethics in the workplace, management should require that employees annually sign a form acknowledging their understanding of the ethics policy and the standards of conduct.

The previous ethics policy was more restrictive than the current ethics policy. Specifically, the former policy prohibited any appearance of impropriety for employees. The new ethics policy is based on the model ethics policy developed by the Office of the Attorney General. The new policy only prohibits the appearance of a conflict of interest as it relates to outside employment and community service. As a result, an employee could demonstrate behavior that might suggest a conflict of interest (for example, dining with developers during tax credit season) but not necessarily be in violation of the ethics policy. The Department should amend the ethics policy to prohibit the appearance of impropriety in all situations, not just those related to outside employment and community service.

This audit was a performance audit and was conducted as part of the 2010 annual internal audit plan. The Institute of Internal Auditors' *Professional Practices Framework* (Standard 2110.A1) requires that internal audit periodically evaluate the Department's ethics-related objectives, programs and activities. We conducted fieldwork for this audit in May and June 2010. This audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. We reviewed documents, conducted interviews with key staff and researched ethics-related issues to conduct this audit. Our criteria included best practices identified by the Association of Certified Fraud Examiners.

We would like to extend our sincere thanks to executive management and the staff of the human resources and legal divisions for their cooperation and assistance during the course of this audit.

Sincerely,



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

cc:

Michael Gerber, Executive Director
Tim Irvine, General Counsel
Jeff Pender, Ethics Advisor
Gina Esteves, Director of Human Resources



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Memorandum

To: Sandy Donoho, Internal Auditor

From: Michael Gerber, Executive Director

cc: Tim Irvine, Chief of Staff and General Counsel
Gina Esteves, Director Human Resources
Jeff Pender, Deputy General Counsel and Ethics Advisor

Date: July 9, 2010

Re: Management Response to the Ethics Audit Draft Report dated June 21, 2010

First, I'd like to thank the Internal Audit staff for a productive audit. The audit has helped me and our ethics advisor focus on where the Ethics Program can be improved.

I agree with the two recommendations of the audit: that the Department needs to strengthen its communication strategy to staff and that the current ethics policy should be amended so that the "appearance of impropriety" standard is applied broadly, not just with respect to outside employment or community service.

The responsibility of implementing ethics policy at the Department is shared among all supervisors, managers, and directors with advice, when necessary, provided by the ethics advisor. I will work with our management to update the ethics policy so that the standard of avoiding an "appearance of impropriety" is applied broadly to all employee conduct.

I also agree that all employees must clearly understand the standards of conduct to which they will be held. To that end, I will work with Ms. Esteves in Human Resources and the division directors to update the current program to ensure that employees have their knowledge periodically refreshed and to ensure that the policy priority of ethical conduct is something with which ALL employees are familiar.

Thank you again for the manner in which this audit was conducted, and let me again underscore that TDHCA -- both its management and employees -- are committed to upholding the highest ethical standards.

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and Discussion of the Status of ACS Information Technology Issues Identified by KPMG.

Required Action

None, information item only.

Background

In the fiscal year 2009 Statewide Audit, KPMG identified several information technology issues at ACS, the Department's contractor for disaster recovery. The Information Systems Division and the Internal Audit Division recently followed up on these issues to determine the status of KPMG's recommendations.

Recommendation

None, information item only.

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and discussion of the status of external audits.

Required Action

None, information item only.

Background

A discussion of the status of the pending or recently completed external audits for fiscal year 2010.

Recommendation

None, information item only.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2010 EXTERNAL AUDITS
July 28, 2010**

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. KPMG plans to review	Planning	Report due 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. 	Planning	Report due in December 2010.
Government Accountability Office (GAO)	To monitor the Department’s plans and controls over the American Reinvestment and Recovery Act (ARRA) funds. The GAO is currently auditing the Department’s Weatherization Assistance Program.	Report Released	The GAO is conducting an ongoing monitoring process that includes periodic reporting. We anticipate additional audits later this year.
HUD-OIG	To determine whether the Department followed federal and state regulations in procuring the program management firm (Affiliated Computer Services, Inc. (ACS)) and if ACS has properly supported costs submitted for reimbursement.	Report Pending	
CPA	A post-payment audit of ARRA funds.	Report Released	
HUD	Monitoring of the following CDBG – DRP functions: <ul style="list-style-type: none"> • Financial Mgmt Systems • State procurement for ACS • Application review and eligibility for SETRPC and H-GAC • Rental Housing Program • Non-Housing Program • Relocation Projects • DRGR Reporting • Contracts with HNTB 	Reporting	HUD conducted this monitoring visit the week of March 15, 2010.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2010 EXTERNAL AUDITS
July 28, 2010**

External Audits/Activities	Scope/Description	Stage	Comments
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Report Released	DOE conducted this monitoring visit the week of March 8, 2010.
DOE	The DOE reviewed weatherization activities as part of their quarterly monitoring.	Reporting	DOE conducted this monitoring visit the week of June 21,2010.
HUD	A review of Davis Bacon for HOME and CDBG programs.	Reporting	HUD conducted this monitoring visit the week of May 17, 2010.
HUD	A review of the Neighborhood Stabilization Program.	Pending	HUD plans to conduct this monitoring visit the week of August 23, 2010.
HHS	LIHEAP Compliance Review	Pending	HHS plans to conduct this monitoring visit the week of July 27, 2010.
FEMA	An audit of the Alternative Housing Pilot Project	Pending	FEMA plans to conduct this audit in August 2010.

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and discussion of recent external audit or monitoring reports.

Required Action

None, information item only.

Background

A discussion of the following external audit or monitoring reports:

- **Comptroller's Office Review of ARRA Post-Payments**
The Comptroller's Office reviewed a sample of the 2,485 ARRA expenditure transactions to determine if they complied with state laws and rules governing the processing of payments. In addition, they reviewed the internal controls and procedures related to ARRA grant awards. They found:
 - one transaction for training in which the employee did not successfully complete the certification test on the first attempt and had not yet retaken the exam.
 - three transactions that were coded incorrectly and
 - one transaction where a payment to another state agency was made using a warrant instead of an interagency transfer voucher.
- **GAO Review of the Weatherization Program – ARRA**
The GAO, as part of its ongoing monitoring of ARRA funds, evaluated the Weatherization Assistance Program in Texas. The GAO noted that TDHCA has experienced delays in beginning work on the almost 34,000 homes projected to be weatherized using Recovery Act funds and that the delay in weatherizing homes has delayed realization of the potential economic benefits of the Recovery Act funds. The GOA found that TDHCA is accelerating its progress in weatherizing homes, but several challenges remain. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherizing any homes. The GAO noted that TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and that the state's 44 subgrantees are adequately monitored. Several potential refinements for enhancing internal controls were identified by tge GAO and by TDHCA's Internal Audit Division.
- **HUD-OIG Audit of the ACS Contract**
We anticipate that this audit report will be released the week of July 19, 2010.
- **HHSC Review of the CSBG (from February 2009)**
The monitoring visit occurred in February 2009 and the final report that includes management responses was released in March 2010. HHS performed a state assessment to determine if the implementation, performance, compliance and outcomes of the

Department's program comply with the federal guidelines. HHS was unable to determine if the Department has a system in place to accurately validate the information certifying that individuals were served at 125% of poverty based on annual income.

HHS determined that the Department has an effective process to monitor subrecipients to determine whether they are meeting performance goals, administrative standards and financial management standards. They also did not identify any instances of non-compliance in data collection, or recapture and redistribution of funds. However, the Department did not submit its Financial Status Report within 90 days of the end of calendar year 2007 as required. In addition, HHS reviewers were unable to adequately validate the requested financial information. They also identified \$480,802 in administrative allocation funds that were held beyond the grant period that ended September 30, 2007.

(This report was previously discussed at the December 2009 audit committee meeting.)

- **DOE Monitoring of the Weatherization Assistance Program**

The Department of Energy (DOE) conducted a monitoring visit in March 2010. This visit included a review of the administrative, financial and programmatic aspects of the Weatherization Assistance Program (WAP), as well as a visit to one subgrantee agency. There were no findings, however DOE identified several observations and recommendations. These included the following recommendations:

- TDHCA should increase production and expenditures,
- Fill vacant positions as soon as possible with the best qualified applicants,
- Consider implementing Lead Safety Worker training as a course of study at the training academy,
- Develop a succession/training plan for staff, and
- Establish a monitoring guide that addresses critical areas of the program.

Recommendation

None, information item only.

April 22, 2010

Mr. Michael Gerber
Executive Director
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, TX 78701

Dear Mr. Gerber:

We have completed a post-payment audit of American Recovery and Reinvestment Act (ARRA) transactions of the Texas Department of Housing and Community Affairs (Department) that processed during the period of March 1, 2009 through December 31, 2009.

Our objective was to determine whether the Department's expenditures of ARRA funds complied with certain state laws and rules and with the processing requirements of the statewide accounting and payroll systems.

The audit scope and methodology included verification of the receipts of federal funds, a review of the system of internal controls and procedures, specifically those surrounding ARRA grant awards, and the examination of evidence that supported the amounts expended. The post-payment audit was conducted in accordance with Tex Gov't Code Ann. Sec. 403.071 (Vernon Supp. 2009), FY 2010-11 General Appropriations Act, Article XII, Sec. 6(e), and other applicable rules pertaining to ARRA related funds. All transactions were subject to audit, regardless of amount or materiality.

During the audit period, the Department processed approximately 2,485 expenditure transactions using a cost allocation process or through direct payments to vendors. We reviewed a limited number of transactions in four selected sample groups, and performed an assessment of the Department's ARRA procedures and allocation process. Our sample also included asset verification for three items purchased by the Department. Our review of the selected transactions indicated that the Department has adequate controls and has demonstrated due diligence over ARRA fund expenditures. However, due to our limited review, we are not issuing a formal opinion on the Department's overall compliance with the aforementioned rules.

Thank you for your cooperation. If we can be of further assistance, please contact Chris Escalante via e-mail at chris.escalante@cpa.state.tx.us or call 463-8902.

Sincerely,



Phillip Ashley
Manager
Department of Fiscal Integrity

cc: C. Kent Conine, Chair, Texas Department of Housing & Community Affairs Board
Tim Irvine, Chief of Staff, Texas Department of Housing & Community Affairs
Bill Dally, Chief of Agency Administration, Texas Department of Housing & Community Affairs
David Cervantes, Financial Administration Director, Texas Department of Housing & Community Affairs
Sandra Donoho, Director of Internal Audit, Texas Department of Housing & Community Affairs
Chris Escalante, Auditor, Texas Comptroller of Public Accounts



Audit Findings:

Our limited review revealed the following errors:

- One transaction paid for three employees to attend the Building Performance Institute's certification program. One of the attendees received an "Unsuccessful" score on the certification exam, and had yet to retake the section(s) that were not successfully completed. The Department might consider establishing an internal policy to ensure employees follow-up these types of situations in a timely manner. The Department may also consider requiring employees to pay for professional certifications and reimbursing the employee after proof of a passing score is provided.
- Three transactions were coded incorrectly and another where a payment to another state agency was made via warrant instead of using the Interagency Transaction Voucher (ITV) process. The findings do not have monetary impact associated with them.

We would like to acknowledge the Department's compliance in the following areas:

- The Department recorded and reported federal receipts in accordance with the Comptroller's Fiscal Policies and Procedures for ARRA funds.
- Policies and procedures are adequate for monitoring grant award programs.
- The Department's 1512 reporting of federal awards for the quarter was correct and submitted timely. There were two comments from the U.S. Department of Urban Development (HUD): one regarding the job count calculation and the other on the number of sub-recipient contracts awarded for the Homelessness Prevention Rapid Re-Housing Program. Corrections have been made and the cumulative expenditure amounts and award numbers were reported in the prescribed format.
- Supporting documentation was sufficient to verify ARRA related cost allocation in all expenditure categories.



May 2010

RECOVERY ACT

States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Texas)



GAO

Accountability * Integrity * Reliability

Appendix XVII: Texas

Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ spending in Texas. The full report covering all of our work encompassing 16 states and the District of Columbia is available at www.gao.gov/recovery.

What We Did

We reviewed the use of Recovery Act funds in Texas for weatherization, clean water and drinking water, and public housing projects. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#). For these programs, we focused on how funds were being used, how safeguards were being implemented, and how results were being assessed:

- The Weatherization Assistance Program (WAP), administered by the Texas Department of Housing and Community Affairs (TDHCA), was selected because Recovery Act funding (\$327 million) constitutes a manifold expansion of the program in Texas. Before receiving Recovery Act funding, TDHCA averaged approximately \$5 million annually in WAP funding from the U.S. Department of Energy (DOE). Among other objectives, we examined (1) how TDHCA is managing the significant increase in WAP funding, (2) the extent to which the weatherization measures being installed in homes result in energy cost savings, and (3) internal controls TDHCA has in place to ensure that Recovery Act funds are spent appropriately. At TDHCA, we reviewed WAP implementation plans and interviewed program officials. To make on-site observations, we visited weatherization projects in Houston and San Antonio, areas where significant levels of Recovery Act weatherization funding had been allocated and where varying weatherization approaches were being used.
- We selected the Clean Water State Revolving Fund (SRF) and the Drinking Water SRF programs because they are now getting underway in Texas and have not been addressed in our previous bimonthly reports. We reviewed project eligibility criteria and related documentation obtained from the Texas Water Development Board (TWDB), which administers the programs, and interviewed TWDB officials. Also, we made on-site observations and conducted interviews at a clean water project in Austin (the Hornsby Bend Biosolids Management Plant) and a drinking water project in Laredo (the

¹Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

Jefferson Water Treatment Plant). We selected Austin because according to TWDB, at an estimated cost of \$31.8 million, the project nearly meets the full 20 percent green reserve requirement for Clean Water SRF projects in Texas.² We selected Laredo because the \$48 million drinking water project is receiving the largest amount of funding of all Recovery Act SRF projects in Texas.

- The public housing program was selected because of the funding obligation deadline that was scheduled during this bimonthly reporting period. That is, by March 17, 2010, housing agencies were required to obligate 100 percent of the Capital Fund formula grants allocated under the Recovery Act. At two offices of the U.S. Department of Housing and Urban Development (HUD) in Texas—the Fort Worth Regional Office and the San Antonio Field Office—we reviewed funding obligation data and interviewed officials to discuss the types and extent of assistance and guidance that HUD provided to public housing authorities for obligating and expending Recovery Act funds. We made on-site observations regarding use of these funds by public housing agencies in four cities. Specifically, we selected a large city (El Paso) and a small city (McKinney) that had obligated (as of Jan. 30, 2010) less than 50 percent of their Capital Fund formula grants allocated under the Recovery Act; also, we selected a large city (San Antonio) and a small city (Ferris) that had obligated 50 percent or more of their funds.

Further, in Texas, we obtained state and local government perspectives on overall use and impact of Recovery Act funds. Specifically, at the state level, we obtained perspectives from the Office of the Governor, staff of the Legislative Budget Board,³ and the State Comptroller's Office; and, at the local level, we contacted city management officials in Austin, Dallas, and Houston. Also, we reviewed efforts by state and local government to promote accountability for use of Recovery Act funds. We focused in

²That is, at least 20 percent of the funds provided under the Recovery Act for both Clean Water and Drinking Water SRF projects are to be used for green infrastructure, water or energy efficiency improvements, or other environmentally innovative projects.

³According to state officials, the Legislative Budget Board is a permanent joint committee of the Texas legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government, as well as completes fiscal analyses for proposed legislation. The lieutenant governor and House speaker serve as co-chairs of the board. Other members include the chairs of the House Appropriations Committee and Senate Finance Committee. See www.lbb.state.tx.us.

particular on efforts by the Office of the Governor, the State Auditor's Office, and city audit offices in Austin, Dallas, and Houston.⁴

What We Found

- **Weatherization Assistance Program.** For various reasons, TDHCA experienced delays in beginning work on the almost 34,000 homes projected to be weatherized using Recovery Act funds. According to Texas officials, the delay in weatherizing homes in Texas is due primarily to DOE actions, such as denying the state's request to expand the network of weatherization providers (subgrantees). In contrast, DOE contended that Texas has not undertaken sufficient actions to implement the program in spite of several meetings DOE held with Texas to accelerate the program. Regardless of the reasons, the delay in weatherizing homes has delayed realization of the potential economic benefits of the Recovery Act funds allocated to WAP and energy savings for many low-income Texans eligible for weatherization assistance. TDHCA is accelerating its progress in weatherizing homes, but several challenges remain. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherizing any homes. To enhance the pace of weatherization activity, TDHCA recognizes that it will need to increase attention to weatherizing multifamily units—an approach with risks in that TDHCA and subgrantees have limited experience and training on weatherizing multifamily units. TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. However, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.
- **Clean Water and Drinking Water.** The state of Texas received \$180.9 million in Recovery Act funding for the state's Clean Water SRF⁵ and \$160.7 million in Recovery Act funding for the Drinking Water SRF. According to officials, TWDB established a solicitation and

⁴As indicated, we contacted city management and audit officials in Austin, Dallas, and Houston to obtain local government perspectives on overall use and impact of Recovery Act funds and efforts to promote accountability for use of the funds. We selected these cities because they were awarded large amounts of Recovery Act funding and are located in different geographic areas of Texas, while collectively accounting for approximately 17 percent of the state's total population.

⁵Of the \$180.9 million in Recovery Act funding for the Clean Water SRF, \$179.1 million went to TWDB, and \$1.8 million went to the Texas Commission on Environmental Quality.

ranking process and met the requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. TWDB officials stated that because of lower-than-expected construction bids, and lower-than-anticipated contract awards, the 46 projects include 10 more than initially anticipated—that is, 2 additional Clean Water SRF projects and 8 additional Drinking Water SRF projects. According to TWDB officials, the state encountered a challenge in awarding Recovery Act funding because the federal Environmental Protection Agency (EPA) has not established clear criteria for green reserve projects. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

- **Public housing.** Of the 415 public housing agencies in Texas, 351 collectively received \$119.8 million in Public Housing Capital Fund formula grants from HUD under the Recovery Act. Collaborative efforts by HUD and the recipient agencies resulted in the obligation of all of the funds by the 1-year deadline established by the Recovery Act, or March 17, 2010. Upcoming deadlines are for expenditures—that is, the Recovery Act states that 60 percent of the Public Housing Capital Fund formula grant funds must be expended within 2 years of HUD obligating the funds to PHAs, and 100 percent of the funding must be expended within 3 years. To provide accountability for use of the funds, the HUD offices we contacted in Texas have ongoing and planned reviews to monitor whether public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities.
- **Use and impact of funds.** Recovery Act funds continue to support a range of programs in Texas. As of March 28, 2010, Texas state entities had spent about \$8.3 billion of the approximately \$17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office. The share of Recovery Act funds that have been spent varies among programs, depending on program-specific characteristics. Program officials also described their plans or exit strategies regarding the end of Recovery Act funding. At the local government level, city officials we contacted in Austin, Dallas, and Houston cited various positive effects that Recovery Act funds have had on their communities. However, the officials noted the amounts of Recovery Act funds awarded are relatively small compared to the

respective city's overall budget and, thus, have had limited overall budgetary impact.

- **Promoting accountability.** State entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The state of Texas has used its Single Audit to provide more timely feedback, such as early written communication of internal control deficiencies on Recovery Act programs. Moreover, the Texas State Auditor and other state officials are continuing to review and monitor Recovery Act funds. The city auditors we contacted in Austin, Dallas, and Houston are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

Weatherization Activity Is Dramatically Expanding, but Program Improvements Are Possible

The Department of Energy (DOE) allocated about \$327 million to Texas for the Recovery Act Weatherization Assistance Program (WAP) to be spent over the 3-year period from April 2009 through March 2012. As of July 10, 2009, the Texas Department of Housing and Community Affairs (TDHCA), which administers WAP at the state level, had access to 50 percent of these funds, or \$163.5 million. TDHCA plans to retain about \$30 million of the total allocation to support training, technical assistance, and administrative expenses and use the remaining approximately \$297 million to weatherize about 34,000 homes of low-income Texas residents. The \$297 million is to be distributed, at the local level, by 44 subgrantees through a total of 78 contracts that cover the state's 254 counties.⁶ The WAP has long been an active program in Texas, but Recovery Act funding constitutes a manifold expansion of the program in the state. Prior to receiving Recovery Act funding, TDHCA averaged approximately \$5 million annually in DOE WAP funding and typically completed weatherization measures on 1,740 homes a year. Our review of the WAP focused on determining the following:

- The status of the program and how TDHCA is managing the significant increase in program funding.

⁶Some subgrantees entered into multiple contracts. Throughout the course of our work, TDHCA documents reported that Texas had 45 subgrantees with 79 associated contracts. As our report was being finalized, TDHCA said that one of the subgrantees (the City of McAllen) had ended its involvement with the program, reducing the number of subgrantees to 44 and the number of contracts to 78.

- The types of weatherization measures being installed in homes in Texas and the extent to which these measures result in energy cost savings.
- The internal controls TDHCA has in place to ensure that Recovery Act funds are spent in accordance with program objectives.
- The status of training additional weatherization workers to accommodate the significant increase in households anticipated to receive assistance from the Recovery Act-funded WAP.

After a Delayed Start, TDHCA Has Made Progress in Implementing WAP but Will Need to Overcome Several Vulnerabilities to Sustain Progress

TDHCA plans to weatherize almost 34,000 homes with the significant increase in WAP funding that came with the Recovery Act. As of March 31, 2010, TDHCA reported in its latest status update to DOE that 1,834 homes had been weatherized.⁷ DOE guidance stipulates that TDHCA cannot access the second half of its Recovery Act funding (\$163.5 million) until it demonstrates to DOE that 30 percent of the total number of homes targeted for weatherization (more than 10,170 homes) have in fact been completed. According to DOE, each state is expected to reach the 30 percent goal before September 30, 2010. Several factors—including issues associated with establishing wage rates for weatherization workers and with settling on a network of subgrantees—delayed the start up of the program in Texas.⁸ Regardless of the causes, delayed weatherization activity delays realization of the full potential economic benefits of the Recovery Act funds allocated to WAP as well as energy savings for many low-income Texans eligible for weatherization assistance.

With respect to the issues associated with establishing wage rates, we reported in March 2010 that complying with Davis-Bacon requirements for wage-setting had caused delays in implementing the Recovery Act WAP.⁹ Specifically, a number of states that received increased WAP funding

⁷In commenting on a draft of this appendix, a senior official representing the Office of the Governor said that Texas had weatherized substantially more units in April 2010 and was continuing to make accelerated progress in May.

⁸Nationwide, the WAP experienced issues associated with establishing wage rates for weatherization workers. See GAO, *Recovery Act: Factors Affecting the Department of Energy's Program Implementation*, [GAO-10-497T](#) (Washington, D.C.: Mar. 4, 2010) and GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sept. 23, 2009).

⁹[GAO-10-497T](#) and [GAO-09-1016](#).

under the Recovery Act, including Texas, decided to not begin weatherizing homes until the U.S. Department of Labor determined prevailing wages for weatherization workers, as required by the Recovery Act's Davis-Bacon provision.¹⁰ Texas, as well as the other states, was authorized to begin weatherizing homes in July 2009 using Recovery Act funds—so long as the state agreed to pay back wages to any weatherization workers who were paid less than the prevailing wages ultimately set by Labor. TDHCA officials explained that they and the WAP subgrantees wanted to avoid having to pay back wages and were unwilling to assume what they perceived as potentially large legal and accounting risks; so, they decided to delay weatherizing homes. After the prevailing wages were published in final form in December 2009, the subgrantees began weatherizing homes. TDHCA reported that 47 units statewide had been weatherized using Recovery Act funds by the end of December 2009.

Difficulties experienced by TDHCA in assembling a DOE-approved network of subgrantees to implement the greatly expanded level of weatherization activity also contributed to delays. To enable the dramatic expansion in weatherization activity anticipated by the Recovery Act, TDHCA identified the need to significantly expand its network of subgrantees from the 34 it was using to conduct WAP activities before the Recovery Act. TDHCA initially anticipated using 81 subgrantees to distribute WAP assistance. The 81 entities consisted of 34 existing nonprofit entities, 32 municipalities (including some with no previous WAP experience), and 15 nonprofit entities to be selected on a competitive basis. Some of the municipalities chose not to accept program funding before TDHCA submitted its draft Recovery Act WAP plan to DOE; so in April 2009, TDHCA submitted its WAP plan to DOE, requesting permission to fund 69 subgrantees.

According to TDHCA officials, DOE approved the plan in July 2009 but later directed TDHCA to revise the plan to use the existing network of nonprofit entities and a few large cities to distribute WAP assistance. According to DOE officials, the Texas WAP plan was not approved until TDHCA agreed to restructure the plan so that a larger portion of the

¹⁰The Davis-Bacon Act requires that contractors and subcontractors pay workers the locally prevailing wages on federally funded construction projects, and it imposes several administrative requirements relating to the payment of workers on qualifying projects. Prior to the Recovery Act, Davis-Bacon requirements did not apply to DOE's WAP; therefore, Labor had to determine county-by-county prevailing wages for weatherization workers in Texas and other states.

funding was provided to the existing network of subgrantees, thereby giving these subgrantees preference, as required by WAP regulations. DOE officials also contend that they never advised TDHCA to use a few large cities as subgrantees to distribute WAP assistance; rather, DOE officials indicated that the decision was made by TDHCA. Acting on DOE's recommendation, TDHCA made several additional changes to the plan and to the number of subgrantees it planned to use to implement WAP at the local level throughout the state. In March 2010—8 months after weatherization activity was authorized to begin—TDHCA submitted its revised plan to DOE. The revised plan proposed a network of 45 subgrantees—33 existing nonprofit entities and 12 large cities. According to TDHCA officials, as of May 11, 2010, DOE had not approved the revised plan. Texas has continued to weatherize homes based on the previously approved plan.

TDHCA has taken steps that it expects will lead to an increase in the number of homes weatherized with Recovery Act funding in the coming months. In particular, TDHCA says it has now completed all negotiations with subgrantees, and the department reported that it is holding weekly meetings with all subgrantees. Thus, during our exit conference in May 2010, TDHCA officials expressed confidence that the department is on track to meet DOE's 30 percent goal by the end of August 2010, or about 1 month earlier than the expected date of September 30, 2010, that DOE set for all states. The TDHCA officials also expressed confidence that the department will successfully weatherize the 33,908 homes projected to be completed with Recovery Act funding by the end of March 2012.

Regarding the number of jobs funded with Recovery Act WAP dollars, in April 2010, TDHCA reported 297.27 full-time equivalents into FederalReporting.gov.¹¹ According to TDHCA officials, to help ensure accuracy of job reporting by subgrantees, the agency conducted webinars, provided written guidance and job-reporting templates, established a centralized reporting Web site, and performed quality checks on submitted data.

TDHCA is accelerating the pace of weatherization activity. For example, as mentioned previously, TDHCA reported to DOE that a total of 1,834 units

¹¹The FederalReporting.gov system was created and managed by OMB and the Recovery Accountability and Transparency Board for all Recovery Act recipients to report on the nature of projects undertaken with Recovery Act funds and on job creation estimates.

had been weatherized as of March 31, 2010—a substantial increase from the 47 completed as of December 31, 2009. However, several challenges remain. Some subgrantees are continuing at a very slow pace. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherization of any homes. TDHCA officials also voiced concerns about other subgrantees' capacity to meet production goals for WAP; therefore, the officials said that TDHCA has adopted a rule allowing funds to be reallocated to successful or new subgrantees. DOE officials recently voiced concern with the progress TDHCA is making in implementing the Recovery Act-funded WAP as well. For instance, in April 2010, DOE reported that it had not been pleased with the state's progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress.

Maintaining the accelerating pace it has recently been able to achieve will require TDHCA to address several important potential vulnerabilities if the department is to avoid implementation problems down the road. In particular, given the accelerated pace of spending, TDHCA is significantly expanding the number of program officers responsible for monitoring subgrantees' compliance with WAP requirements. In April 2010, TDHCA reported that 5 additional monitors had been hired, bringing the on-board total to 11. Further, TDHCA recognized a need to hire 8 more. An experienced program officer and a subgrantee representative with considerable weatherization experience told us, however, that it can take about a year for new staff to become fully capable of effectively monitoring all aspects of WAP. Thus, until the new program officers gain field experience, there is heightened risk that program oversight may be weakened. Inexperienced program officers may not detect mistakes made by the 44 subgrantees (many of which are new to WAP) and their contractors—all of whom are under pressure to increase production. However, in commenting on a draft of this appendix, Texas officials said they believe a full year is not needed to gain the necessary experience. Further, the officials said that they manage the process by assigning new monitors to work with more seasoned staff and by providing comprehensive training.

To complete weatherization work on the target number of homes statewide, TDHCA plans to increase its attention on weatherizing multifamily units. This approach may, however, introduce another risk factor for successful implementation of the Recovery Act WAP. That is, TDHCA and the subgrantees have limited experience and training on weatherizing multifamily units. TDHCA staff also said some subgrantees

are hesitant to weatherize multifamily units because they do not have experience with such work. The potential adverse affects of inexperienced subgrantees weatherizing large numbers of multifamily units is demonstrated by TDHCA's findings based on a February 2010 monitoring visit to a subgrantee in Houston (Sheltering Arms Senior Services, Inc.). TDHCA's on-site inspections of 27 multifamily units weatherized by the subgrantee found that the work completed on 13 units was not acceptable and, thus, return visits would be required to correct various workmanship deficiencies, including window caulking as well as duct work. We accompanied TDHCA's program officers during their inspections of 16 of the 27 multifamily units and observed several examples of these deficiencies. According to TDHCA documents, officials recognized the need for multifamily weatherization training some months ago but did not require such training when TDHCA established a Weatherization Training Academy shortly after receiving Recovery Act funding. TDHCA did request DOE to provide training on multifamily units. According to TDHCA officials, after numerous requests over several months by the state, DOE agreed to sponsor a workshop on multifamily weatherization this spring. The officials said that the training is scheduled for late May 2010 in Austin.

Cost Effectiveness of WAP Activities Could Be Enhanced by Focusing on Measures with Higher Returns on Investment

A primary objective of WAP is to reduce energy consumption and the utility bills of low-income households so that these households will spend a lower percentage of their income on energy costs. To this end, program criteria require that all homes be assessed before they are weatherized to determine what weatherization measures are appropriate for installation. According to TDHCA, DOE authorizes TDHCA's subgrantees to use two primary energy assessment methodologies to determine what weatherization measures will be installed on a dwelling. The first assessment methodology—a DOE-approved Priority List—identifies cost-effective recurring measures that can be performed on any eligible home. The approved measures are grouped by 12 major categories and include measures aimed at reducing air infiltration; sealing ducts; installing attic, sidewall, and floor insulation; replacing refrigerators and water heaters; and installing sun screens on windows. The Priority List does not include replacing windows or doors but does state that a maximum of \$400 can be expended on miscellaneous repairs, such as repairing windows. The Priority List also specifies two instances when a site-specific energy audit is warranted—when the home has ducting in the crawlspace or when the home is heated by a fuel other than natural gas, propane, or electricity.

The second assessment methodology involves using an energy audit tool—particularly the DOE-approved National Energy Audit Tool (NEAT)—to

calculate a savings-to-investment ratio (SIR) that can, in turn, be used to measure the cost-effectiveness of weatherization measures. After physically inspecting the home, the energy auditor enters proposed weatherization measures into the computer-based audit, which then ranks the measures by SIR. The installation of weatherization measures is supposed to follow the SIR ranking, and if so, the most cost-effective measure is assumed to have been installed on the dwelling before moving to the next most cost-effective step as determined by the model. DOE WAP regulations allow any approved measure with a SIR of 1.0 or higher to be installed on a dwelling.¹² In calculating this ratio, the model estimates energy cost savings over the life of the installed measure. For example, if the cost of an installed window is \$300—with an assumed useful life of 20 years and discounted energy cost savings estimated at \$330 over the useful life—then the calculated SIR would be 1.1 (\$330 divided by \$300). The Recovery Act WAP generally requires that the cost of installing measures cannot exceed an average of \$6,500 per dwelling.

At the time of our review, rather than using NEAT, 18 of the 44 subgrantees were using another energy audit tool, Texas EZ, that TDHCA says had been previously approved by DOE. According to TDHCA officials, Texas EZ and NEAT work alike in calculating SIRs, and either audit tool can be used to assess single-family dwellings, manufactured homes, and multifamily buildings containing 24 or fewer units. The officials noted, however, that Texas EZ is being phased out after all subgrantees are trained to use NEAT.

We found that the weatherization measures chosen for installation by subgrantees can vary significantly depending on whether the Priority List is followed or an energy audit is used to determine what measure will be installed on a dwelling. For example, we determined that by using the NEAT audit one subgrantee justified spending a significant amount of Recovery Act funding installing new windows and doors, even though these measures produce a relatively marginal payback in terms of reducing the energy costs of low-income recipients and are not included in the Priority List. Conversely, another subgrantee relied on the Priority List to support installing basic weatherization measures, such as measures to reduce air infiltration and increase attic and wall insulation that offered much greater energy savings for the money invested compared to the replacement of windows and doors allowed by NEAT. According to

¹²10 C.F.R. §440.21(d).

TDHCA officials, under DOE rules, TDHCA is authorized to use either the Priority List or the NEAT model to determine what weatherization measures to install. However, based on a comparison of these two approaches, it appears that if TDHCA emphasized the use of the Priority List whenever possible, more cost-effective savings would be provided to low-income WAP recipients. Simply stated, funds spent on costly weatherization measures that offer relatively marginal energy cost reductions decrease the amount of assistance that is available for other, less-costly measures, and reduce the number of low-income people who can be served with Recovery Act funds.

We reviewed the energy assessments and weatherization measures installed by a large WAP subgrantee—Sheltering Arms Senior Services, Inc., located in Houston, Texas. According to Sheltering Arms officials, they customarily complete a NEAT audit on all dwellings as part of the assessment of a dwelling and the results of the audit are used to determine what measures will be installed on a dwelling. We inspected 16 apartments weatherized by the subgrantee and found that a NEAT audit was completed on each apartment. We also found that the exterior windows and doors were replaced on all apartments. These measures were selected based on the results of the NEAT audits. The SIRs for the replacement of windows varied from a low of 1.3 to a high of 1.7. Specific SIRs were not calculated for the doors. However, the doors were replaced even though TDHCA's *Texas Weatherization Field Guide*¹³ indicates that the cost of new doors rarely can be justified unless they are in extremely poor condition. In the case files, we found no documentation of the doors' condition. A few additional weatherization measures were also installed on these apartments, but the installation of the windows and doors accounted for 70 percent of the \$37,000 spent weatherizing the 16 apartments. The average cost to weatherize the relatively small apartments (ranging from about 360 to just over 1,000 square feet) was slightly more than \$2,300; of this amount, the cost for new windows and doors averaged almost \$1,600 per unit. The results of air infiltration tests conducted on several of these units during our visit also raise doubts about the cost effectiveness of these weatherization measures. These tests indicated that more air was leaking from 2 of the 16 apartments after the windows and doors were installed than before the weatherization work was done. In

¹³Texas Department of Housing and Community Affairs, *Texas Weatherization Field Guide* (Austin, Tex.: 2004). The guide outlines the procedures covering several areas, including the energy efficiency of existing homes. The guide also includes measures used by weatherization assessors and crews.

two other cases, air infiltration was essentially unchanged. Achieving sufficient energy-cost savings to recoup the investment in these cases is questionable.

In contrast, officials at a second WAP subgrantee—the City of Houston—told us they follow the DOE-approved Priority List because it directs the installation of cost-effective weatherization measures that immediately result in lower energy costs for the people receiving assistance. An energy audit tool is not used because, in the opinion of the Houston officials, using such an audit requires more time and cost than simply following the Priority List. And, city officials said using the Priority List allows the installation of basic weatherization measures, such as weather stripping, caulking, and adding attic and wall insulation, which are more cost effective in reducing energy costs than replacing windows and doors. We reviewed the client files for 11 single-family homes weatherized by this subgrantee and found that no windows or doors were installed; instead, many of the basic weatherization measures contained on the Priority List were installed. Because neither NEAT nor another energy audit tool was used in completing the assessments on these 11 homes, there were no corresponding SIRs for the weatherization measures that were installed. We did, however, corroborate the Houston officials' opinion that the measures installed on these homes are more cost effective than the windows and doors installed by Sheltering Arms. That is, we reviewed the results of energy audits completed by another subgrantee that installed several of the weatherization measures that were installed on the 11 homes in Houston. Examples of these measures and the corresponding SIRs show that miscellaneous air infiltration measures as simple as caulking and sealing around windows, doors, and cracks provided SIRs that ranged from 6.0 to 14.9; installing additional attic insulation provided SIRs ranging from 4.6 to 17.8; and making minor repairs and installing door sweeps provided SIRs that ranged from 2.6 to 3.5.

We also found that the Houston officials' opinion on not replacing windows and doors is supported by the *Texas Weatherization Field Guide*. The field guide states that with the exception of broken glass or missing window panes (we observed no documentation to this effect in the case files at Sheltering Arms) windows are rarely a major source of air leakage. Consequently, the field guide calls for replacing windows only when the window is missing or damaged beyond repair. Similarly, the field guide states that door replacement is rarely a cost-effective energy conservation measure and that a door should be replaced as an emergency repair only when the door is damaged beyond repair. We discussed this apparent conflict between the NEAT audit and the field guide with TDHCA

officials, who told us that an energy audit is used to determine which weatherization measures can be installed based on the calculated SIR, and the field guide provides best practices in conducting weatherization services.

TDHCA has no empirical data for assessing whether energy savings are being achieved as a result of the installed weatherization measures. For each unit being weatherized, energy consumption data are obtained for 12 months before the measures are installed, but there is no requirement for collecting energy consumption data after installation. According to TDHCA officials, such collection is not required by DOE. One subgrantee we visited, the City of Houston, is collecting actual energy consumption data to measure the level of savings being achieved after the weatherization measures were installed. Houston staff told us that the city's partnership with the local utility made the process for collecting and analyzing the data relatively simple and that information on real world savings was very useful. Measuring the actual savings being achieved by a program aimed at reducing energy consumption seems sensible. TDHCA said it is not required by DOE to collect such data. However, by comparing energy consumption data for the different approaches, we believe that TDHCA could better determine what weatherization measures provide the highest cost savings for the low-income individuals served and the highest return on program funds invested. Studies performed by the Oak Ridge National Laboratory¹⁴ and others¹⁵ confirm the need for collecting energy consumption data before and after the installation of weatherization measures in order to facilitate analyses of program effectiveness. Also, according to the April 2008 Oak Ridge National Laboratory study, energy audit models can often over-predict energy savings from individual measures, which can sometimes lead to recommending measures that are not cost effective. This study also noted that if installation of non-cost-effective measures was avoided, less money would be spent on each house

¹⁴Oak Ridge National Laboratory, *Texas Field Experiment: Performance of the Weatherization Assistance Program in Hot-Climate, Low-Income Homes*, ORNL/CON-499, April 2008; and *Estimating the National Effects of the U.S. Department of Energy's Weatherization Assistance Program with State-Level Data: A Metaevaluation Using Studies from 1993 to 2005*, ORNL/CON-493, September 2005.

¹⁵Proceedings of the Tenth Symposium on Improving Building Systems in Hot and Humid Climates, (Fort Worth, Tex.: May 13-14, 1996), *Data Quality Requirements for Determining Energy Savings in the Weatherization Assistance Program (WAP)*, paper presented by representatives of Texas A&M University's Energy Systems Laboratory and TDHCA's Energy Assistance Section.

weatherized, more houses would be weatherized, and WAP's cost effectiveness would increase. Based on these collective considerations and in the interest of maximizing the impact of WAP funds, we think it may be useful for TDHCA to consider issuing guidance to its subgrantees that highlights the merits of the approach used by the City of Houston for determining what weatherization measures are to be installed through the program.

TDHCA Generally Has Internal Controls in Place, but Some Refinements Could Be Considered

TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. Specifically, TDHCA has procedures and controls aimed at ensuring that (1) weatherization assistance is limited to eligible households, (2) only appropriate work is undertaken at eligible homes, and (3) all work is completed and inspected before payments are made. Further, TDHCA plans to monitor internal control implementation by subgrantees. Nonetheless, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.

TDHCA's System of Internal Controls and Monitoring

TDHCA—in its accountability guidance for the WAP's use of Recovery Act funds—has specified various internal controls that subgrantees are required to implement. The internal controls are based on DOE requirements and include the following:

- Before any weatherization work is undertaken, the subgrantee is to determine the applicant's eligibility by verifying the applicant's income and assessing the applicant's energy bills. Each client file is to include documentation, such as an earnings statement or a letter from the Social Security Administration, establishing that the applicant's annual income does not exceed the eligibility requirement (200 percent of the poverty level). Regarding income verification, under current guidance, an applicant may report income for a single 30-day period—which the subgrantee can project to determine whether the applicant meets annual income limits.¹⁶
- After eligibility is established, the applicant's dwelling is to be assessed to identify appropriate weatherization measures. The assessment is to

¹⁶Applicants are also commonly referred to as being "clients" of the subgrantee.

be based on either DOE's Priority List of pre-approved measures or an energy audit tool (DOE's NEAT or Texas EZ). If an energy audit tool is used, each of the prospective weatherization measures for the dwelling is to be ranked based on SIRs, and the higher-scoring improvements are to be initiated first.¹⁷ Documentation supporting the basis for the weatherization measures undertaken must be included in the client's file and available for independent review by TDHCA.

- After the weatherization work is completed on the dwelling and before the contractor is paid, the subgrantee is responsible for inspecting the dwelling to ensure that all agreed-upon work was completed appropriately. The subgrantee is to maintain a record of the inspection—a certification form signed by the inspector.

Regarding statewide monitoring of WAP-related Recovery Act funds, DOE requires that every subgrantee be visited by the respective state's oversight agency at least once annually. Also, in conjunction with the annual visits, DOE requires the state oversight agency to review subgrantee records and client files, as well as inspect at least 5 percent of the completed units or units in the process of being weatherized.

TDHCA has reported that it intends to exceed the minimum monitoring requirements established by DOE. In April 2009, TDHCA submitted its initial WAP plan to DOE. The plan stated that TDHCA would visit each subgrantee at least annually and review a minimum of 10 percent of the units weatherized and 10 percent of the client files. More recently, in March 2010, TDHCA submitted a revised plan, which expands the goal of monitoring visits to at least four times annually but reduces the percentage of file review and unit inspections to align with the DOE requirement of at least 5 percent inspection coverage.

TDHCA Internal Audit and Our
Reviews Identify Possible
Enhancements

In December 2009, in light of the large infusion of Recovery Act funds for WAP, TDHCA's Internal Audit Division initiated a review of the agency's monitoring process. Among other objectives, the review focused on determining whether TDHCA's monitors have sufficient resources, support, and training to effectively monitor WAP. On April 27, 2010, the Internal Audit Division issued its report to the Governing Board and Audit Committee members of TDHCA. The report concluded that the monitoring

¹⁷As mentioned previously, under WAP guidelines, any prospective weatherization improvement with a SIR score of 1.0 or higher is eligible to be installed at a dwelling.

process is well-designed and comprehensive, but enhancements can be made to increase efficiency and communicate results more timely.

Program officers in TDHCA's Community Affairs Division are responsible for monitoring subgrantees' compliance with WAP requirements. In February 2010, we accompanied a team of program officers during a monitoring visit to a subgrantee in Houston—Sheltering Arms Senior Services, Inc., a nonprofit entity providing services for residents of Harris County.¹⁸ The Community Affairs Division's resulting report, dated April 12, 2010, listed various deficiencies. For example, the report noted that 33 of the 53 units inspected by the division's program officers had workmanship deficiencies. Also, regarding required documentation, the report noted that the subgrantee's client files for 18 of the units did not have a certification of final inspection signature page. To correct the various deficiencies, the division's report specified actions to be implemented by the subgrantee.

Our on-site work also included visiting (in March 2010) two additional subgrantees. One of these, the Alamo Area Council of Governments (AACOG), has many years of WAP-related experience in the City of San Antonio, Bexar County, and 11 other counties—experience that long predates the Recovery Act. The other subgrantee, the City of Houston, is new to the program. Our review found that AACOG's client files contained all relevant documentation. In contrast, the City of Houston's client files had deficiencies. Specifically, our review of 11 randomly selected client files found that 9 files had no post-work certification form signed by an inspector.¹⁹ Also, although the other 2 files did contain a certification form, we found that the form was signed by the contractor that performed the weatherization work rather than by the subgrantee's inspector. In response to our findings, the subgrantee stated that corrective actions would be taken. Subsequently, for example, the subgrantee told us that communication problems between contractors and post-work inspectors have been addressed and the case file management process has been streamlined. More broadly, although not projectable to other locations, our findings suggest that TDHCA may wish to consider adjusting the

¹⁸The team also included one staff member from TDHCA's Internal Audit Division.

¹⁹We randomly selected 11 files from the total of 24 files. At the time of our visit in March 2010, the subgrantee reported that weatherization work had been completed on 24 dwellings.

department's monitoring plan to provide comparatively more focus on the WAP's 11 new subgrantees relative to the 33 experienced subgrantees.

Finally, during our on-site reviews of the two subgrantees, we noted that TDHCA allows an applicant to report income for only a 30-day period, which then can be projected by the subgrantee to determine whether the applicant meets annual income limits. We did not test the potential implications of this approach. However, in March 2010, New Jersey's state auditor reported that a similar approach used in that state—projecting annual income from as little as a 30-day period—led to ineligible individuals being approved.²⁰ The audit report noted, for example, 12 instances where applicants with household incomes over \$100,000 in 2008 were approved because they did not provide their annual income. Given the findings in New Jersey, TDHCA may wish to consider whether eligibility controls in Texas should be tightened to reduce the risk of similar problems.

TDHCA Has Not Set Certification or Minimal Training Standards for Weatherization Workers but Has Established a Training Academy to Standardize Training

According to TDHCA officials—other than professionally required licensing typically applicable to heating, ventilating, and air conditioning or other work—TDHCA does not require that its program officers (nor subgrantees or their weatherization contractors) have a state certification or meet minimal training requirements to work on WAP projects. Under DOE regulations, TDHCA is not obligated to establish such requirements, but some states have done so.²¹ DOE officials told us that the department is working to develop a nationwide certification program but do not anticipate it being ready for implementation this year. Because of the significant increase in WAP funding and the number of homes to be weatherized, TDHCA decided to use about \$5.5 million in Recovery Act funding to develop a training curriculum for weatherization work and establish a Training and Technical Assistance Academy (Training Academy). Certification of workers was not included as part of the Training Academy, largely because Recovery Act funds represent a one-time expansion of the existing program, and TDHCA officials considered it

²⁰New Jersey State Legislature, Office of Legislative Services, Office of the State Auditor, *Department of Community Affairs American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility* (Trenton, N.J.: March 26, 2010). The audit report covered the period April 1, 2009, to December 4, 2009.

²¹However, DOE requires all states to include a training and technical assistance plan in their application for weatherization funds. 10 C.F.R. § 440.12(b)(7).

imprudent to establish certification requirements without certainty of an ongoing funding source. If sufficient funds are available from DOE in the future, TDHCA officials indicated that the agency may consider pursuing a certification requirement for weatherization workers.

In October 2009, TDHCA contracted with ACS State & Local Solutions, Inc., to establish a Training Academy offering a range of weatherization/energy-efficiency and administrative instruction through a combination of classroom teaching, online instruction, and field work. Regarding design curriculum for the Training Academy, officials explained that the contract required development (in cooperation with TDHCA) of coursework that includes classes on basic weatherization and advanced weatherization. For example, the basic course is to include instructions on the principles of energy, building science, inspection and diagnostics, and energy audit; and the advanced weatherization course is to include instruction on the flow of building heat, air leakage and sealing, insulation, hazardous materials, health and safety, consumer energy education, weatherizing manufactured housing, and follow-up and maintenance of installed weatherization measures. According to TDHCA, the Training Academy also teaches a lead safety course. As of May 3, 2010, TDHCA reported that the Training Academy had provided WAP-related training to 909 students—which includes employees of TDHCA, subgrantees, and subcontractors. TDHCA officials said that, while not mandatory, the department also sponsors other training courses and conferences throughout the year directly related to WAP.

The Training Academy does not teach a course on the new Davis-Bacon requirements placed on WAP by the Recovery Act. However, according to TDHCA officials, Davis-Bacon training was intentionally kept separate from the Training Academy. The officials explained that TDHCA and the U.S. Department of Labor jointly conducted four training sessions on Davis-Bacon requirements in November 2009. We reviewed TDHCA documentation confirming that the four training sessions were held in Dallas, El Paso, Houston, and San Antonio. Also, TDHCA officials said that each subgrantee was required by TDHCA to attend a one-on-one preconstruction conference with TDHCA Davis-Bacon staff.

Finally, TDHCA has not required the Training Academy to develop or teach a course on weatherizing multifamily units. The need for such training is likely to increase since TDHCA's accelerated pace for WAP will be reliant on increased subgrantee attention to weatherizing multifamily units. TDHCA and subgrantees have little experience weatherizing these types of dwellings and, according to TDHCA, many subgrantees are

reluctant to take on multifamily projects because the subgrantees are fearful of the complications that could be associated with doing so. In recognition of the need for training, TDHCA says it has requested that DOE provide comprehensive multifamily units weatherization training for Texas. According to TDHCA officials, DOE agreed to sponsor a workshop this spring. The officials said that the training is scheduled for late May 2010 in Austin and they will include such training in the Training Academy's course offerings.

Clean Water and Drinking Water Programs: Texas Met the Deadline for Having Recovery Act Funds under Contract and Has a System in Place to Help Ensure Accountability

The state of Texas received \$180.9 million in Recovery Act funding for the state's Clean Water State Revolving Fund²² and \$160.7 million in Recovery Act funding for the Drinking Water State Revolving Fund. The base Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations. According to officials, TWDB established a solicitation and ranking process and met the Recovery Act requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. State officials said that they encountered a challenge awarding the funds because the Environmental Protection Agency (EPA) did not provide clear and timely guidance on qualifying "green reserve" projects—that is, green infrastructure,²³ water or energy efficiency, or other environmentally innovative activities. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

²²Of the \$180.9 million in Recovery Act funding for the Clean Water SRF, \$179.1 million went to TWDB, and \$1.8 million went to the Texas Commission on Environmental Quality.

²³Green infrastructure clean water projects include projects such as bioretention, green roofs, and the preservation and restoration of natural landscape features like floodplains. Green infrastructure drinking water projects include projects such as wet weather management systems, green roofs, and porous pavement at drinking water facilities.

Texas Water Development Board Established a Solicitation and Ranking Process for Recovery Act Projects and Met the Deadline to Have Funds under Contract

As part of its routine annual process, TWDB began the solicitation process for potential Recovery Act projects in October 2008, before the act passed. TWDB sent a solicitation to eligible entities across Texas, such as wastewater and water systems. In response, TWDB reported that it received funding requests that totaled \$3.3 billion for Clean Water SRF projects and \$3.4 billion for Drinking Water SRF projects. To give priority to shovel-ready projects, TWDB first grouped the applications by construction start dates by month and, within each month, TWDB ranked the projects by water quality score.²⁴ Then, TWDB ranked the projects by the Recovery Act requirement that at least 50 percent of the act's funding for SRF projects be awarded in the form of additional subsidization²⁵ and 20 percent of the funding be awarded to support green reserve projects. In some instances, the additional subsidization and the green reserve requirements resulted in projects with otherwise higher priority (based on construction start dates and water quality scores) not receiving Recovery Act funding.

According to TWDB officials, the construction bids received for both the Clean Water SRF projects and the Drinking Water SRF projects were lower than the anticipated project costs. Specifically, the officials reported that the average construction bid for Clean Water SRF projects was 89 percent of the applicant's engineering cost estimate within the original commitment amounts, and the average construction bid for Drinking Water SRF projects was 79 percent of the applicant's engineering cost estimate. TWDB officials explained that—to mitigate the risk of not meeting the February 17, 2010, deadline and having to return funding to EPA—the state invited additional applicants (termed “provisional applicants”) to apply.²⁶ As a result of the lower-than-expected construction

²⁴Water quality scores for clean water projects are determined by TWDB based on criteria such as the need for improved wastewater treatment, extension of service to unserved communities, and the need to address judicial and agency compliance orders. Water quality scores for drinking water projects are determined by the Texas Commission on Environmental Quality and TWDB, and are based on criteria, such as total health and compliance factors, total physical deficiencies, and affordability.

²⁵In March 2009, TWDB adopted a policy that the additional subsidization would be made available to those entities that meet existing SRF program eligibility requirements as disadvantaged communities and that the additional subsidization would be offered in the form of a grant. Disadvantaged community status takes into account factors such as adjusted median household income and household costs.

²⁶According to TWDB, those provisional applicants not needed to assist in meeting Recovery Act goals were to be funded from the 2010 Clean Water or Drinking Water SRF Intended Use Plan.

bids, contracts were awarded below applicant cost estimates and TWDB reported that \$22 million was made available for additional Clean Water SRF projects and \$42 million for additional Drinking Water SRF projects. With these freed-up funds, TWDB awarded funding to two provisional applicants for Clean Water SRF projects and eight provisional applicants for Drinking Water SRF projects.

TWDB successfully met the Recovery Act's deadline (February 17, 2010) to get projects under contract. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects.

Texas Expects Several Benefits from Funded Projects

State and local officials cited various benefits from projects funded by the Recovery Act, such as decreased water loss and improved water quality. Clean Water SRF projects and Drinking Water SRF projects will benefit multiple entities because Recovery Act funding is dispersed across Texas. The amounts of Recovery Act funding awarded to projects range from \$305,000 for a solar-powered machine to reduce taste and odor problems in a Greenville drinking water green project to \$48 million for upgrading a water treatment plant and replacing waterline pipes in Laredo. According to Laredo Utilities Department officials, the upgrade of the Jefferson Water Treatment Plant and the replacement of waterline pipes will improve water quality, decrease water loss and energy costs, and enable the plant to function during power outages. In addition, officials from the Texas Commission on Environmental Quality (TCEQ) stated that the Recovery Act-funded improvements will help to address repeated problems with one of the city's water treatment plants operating beyond its capacity.²⁷ According to TCEQ, the City of Laredo was subject to state enforcement actions in 2009 due to noncompliance associated with these operational problems.²⁸

A \$31.8 million Clean Water SRF project in Austin is also expected to have environmental and financial benefits. Austin Water Utility received funding from TWDB in the form of a zero-interest loan for improvements to the

²⁷The Texas Commission on Environmental Quality is the environmental agency for the state of Texas and oversees water quality.

²⁸In 2009, the Jefferson Water Treatment Plant was the subject of 14 violations, such as insufficient monitoring of turbidity and filter processes, out-of-date plans, and deficient capacity. As of February 2010, TCEQ officials told us that all violations (except those related to deficient capacity) against the City of Laredo were addressed and closed.

Hornsby Bend Biosolids Management Plant, which treats and converts sludge produced by the city’s wastewater treatment plants into a reusable resource known as “Dillo Dirt,” a nutrient-rich soil conditioner used across the city on lawns, gardens, parks, golf courses, and other areas. The Recovery Act-funded improvements to the Hornsby Bend Biosolids Management Plant constitute the largest green project in Texas. Austin Water Utility officials commented that the plant improvements will generate multiple environmental benefits, including a reduction in diesel fuel use by 30,000 gallons per year, a decrease in off-site land application, and a reduction in greenhouse gases. In addition, the officials cited the financial benefits of the Clean Water SRF interest-free loan, which generates cost savings for the City of Austin. Furthermore, the Austin Water Utility officials commented that—in the absence of Recovery Act funding—any improvements to the Hornsby Bend Biosolids Management Plant likely would have been made in a piecemeal fashion and would have cost the city more.

Green Reserve Project Requirement Presented Challenges, Particularly for Drinking Water Projects

TWDB officials stated that meeting the 20 percent green reserve requirement for use of Recovery Act funds was particularly difficult for the Drinking Water SRF program. At the time of TWDB’s solicitation in October 2008, the Recovery Act was yet to be enacted. Thus, the specific provisions of the prospective act were unknown, and according to officials, TWDB’s solicitation did not include a call for green Drinking Water SRF projects. Subsequently, TWDB coordinated with EPA Region 6 and concluded that a specific solicitation for green reserve Drinking Water projects was necessary.²⁹ TWDB officials explained that, following the May 2009 resolicitation, they worked with EPA Region 6, EPA contractors, and potential subrecipients to identify drinking water projects that could potentially qualify as green and, then, to develop business cases for those projects. According to TWDB’s Recovery Act Director, the initial guidance from EPA lacked clear criteria as to which projects could qualify as green. For instance, the guidance was unclear regarding whether the replacement of leaking waterline pipes would qualify. Also, both TWDB and EPA Region 6 officials commented that differences existed across EPA regions in implementing the green reserve criteria. For example, EPA Region 6 officials said that their regional office reviewed all business cases for green reserve projects to determine whether they qualified as green or not, but other EPA regions allowed states to make these determinations. In

²⁹EPA Region 6 serves Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, as well as the Tribal lands located within the region.

February 2010, EPA's Office of Inspector General issued a report that recognized the need for more definitive guidance.³⁰

Despite the various challenges, TWDB reported that it met the 20 percent green reserve project requirement, with 16 of the state's 25 Drinking Water SRF projects containing a green component.³¹

Various Oversight and Monitoring Efforts to Ensure Accountability Are Under Way or Planned

The EPA Office of Inspector General (OIG) is inspecting Recovery Act-funded Clean Water and Drinking Water SRF projects. The purpose of these visits is to determine compliance with selected requirements of the Recovery Act, such as the Buy American provision, and the Davis-Bacon wage-setting requirements. According to the EPA OIG, as of May 1, 2010, site reviews have been initiated in 5 of the 10 EPA Regions. In addition, the EPA OIG plans to conduct a performance audit of states' oversight of Clean Water SRF Recovery Act-funded projects. The OIG selected Texas and two other states to include in this review. According to the OIG, the scope of the work in Texas, planned for spring 2010, will include a review of applicable contracts and related files as well as on-site visits by engineers.

EPA Region 6, which oversees Texas's SRF programs, reported that it is conducting performance reviews as part of its programmatic oversight. EPA Region 6 plans to conduct two Recovery Act performance reviews in federal fiscal year 2010, one midyear review and one end-of-year review. As part of each performance review, EPA Region 6 plans to conduct four project file reviews. According to EPA Region 6 officials, they visited Texas in March 2010, which satisfied the federal fiscal midyear review.

Also, TWDB officials told us that the agency has various oversight and monitoring efforts underway or planned for Recovery Act projects in Texas. The officials reported that, among other efforts, inspection and field support staff are to visit subrecipients at every site once every month, at a minimum. For example, the officials said TWDB staff conducted a site

³⁰U.S. Environmental Protection Agency, Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, Report No. 10-R-0057 (Washington, D.C.: Feb. 1, 2010).

³¹Of the 21 Clean Water SRF projects that were selected by TWDB to receive Recovery Act funding, 7 contained either a green component or were fully categorized as a green reserve project.

visit in March 2010 to the Drinking Water SRF Recovery Act project in the City of Mission. According to TWDB, the inspection showed that the progress of construction was reasonable; however, the inspection also found that labor wage determination signage was not displayed at the site. Further, the TWDB officials stated that engineers are to make on-site visits to each Recovery Act project within an upcoming 6-month period. Also, the officials said that TWDB was in the process of hiring a contractor to inspect all Recovery Act-funded projects to detect and prevent fraud, waste, and abuse.

Moreover, TWDB reported that it conducted training sessions for subrecipients of Recovery Act funding and also developed a handbook to help ensure compliance with requirements.³² The training sessions and handbook offer guidance on subrecipient responsibilities and related topics such as Buy American and Davis-Bacon requirements, accounting system, and monthly reporting requirements. For example, TWDB officials described the recipient reporting process as centralized at the state level, with subrecipients being responsible for providing updates monthly to TWDB. Based on construction schedules for SRF projects in Texas, TWDB officials anticipate that the reported number of jobs funded with Recovery Act dollars will peak during September to December 2010.

Housing Agencies in Texas Met the Deadline for Obligating Recovery Act Funds; Oversight Efforts to Monitor Expenditures Are Ongoing

Of the 415 public housing agencies in Texas, 351 collectively received \$119.8 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. As of March 17, 2010, the recipient public housing agencies had obligated all of the \$119.8 million. Also, 308 of the recipient agencies had drawn down a cumulative total of \$55.0 million from the obligated funds, as of May 1, 2010.

³²Texas Water Development Board, *ARRA Handbook: Guidance for Subrecipients* (Austin, Tex.: December 2009).

Meeting the Deadline for Obligor Funds Was Achieved through Collaborative Efforts

HUD and the recipient public housing agencies collaborated to achieve 100 percent obligation of the Recovery Act funds in Texas by the March 17 deadline. The two HUD program offices that we contacted in Texas (the Fort Worth Regional Office and the San Antonio Field Office) reported that they hosted training sessions for the public housing agencies under their respective jurisdictions that received Recovery Act funding—training that covered procurement policy and other Recovery Act requirements.³³ Also, as another broadly applicable type of assistance or outreach to help public housing agencies meet the March 17 deadline, the HUD offices used standardized checklists to conduct reviews of all public housing agencies within their respective jurisdictions.³⁴ According to HUD, all public housing agencies received a remote review, and some of the agencies also received an on-site review.³⁵ For example, the San Antonio Field Office reported completing

- both a remote review and an on-site review for each of the six troubled housing agencies within its jurisdiction by July 2009;³⁶ and
- a remote review of all nontroubled housing agencies within its jurisdiction by December 2009, and an on-site review of 15 of these agencies by February 2010.

³³The Fort Worth Regional Office reported that 219 public housing agencies within its jurisdiction received Recovery Act funding, and the San Antonio Field Office reported that 88 public housing agencies within its jurisdiction received funding.

³⁴The standardized checklists are designed specifically to facilitate review of Recovery Act implementation by addressing grant initiation and approval procedures, procurement policy requirements, and other relevant topics. Further, following the March 17 obligation date, the HUD program offices we contacted anticipate using similarly standardized checklists (modified as applicable) for monitoring public housing agencies' expenditures of Recovery Act funds.

³⁵As the name implies, an on-site review is conducted at the location of the public housing agency. In contrast, a remote review is conducted at a HUD field office. In conducting a remote review, HUD field office personnel examine information that has been provided by the public housing agency. Such information includes, for example, copies of newly adopted or revised policy documents, funding data and contracting actions, and audit reports. According to HUD, remote monitoring can identify issues, problems, or concerns and also help determine the necessity for an on-site review.

³⁶HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

Further, officials at the two HUD program offices reported that—as the March 17 deadline approached—their staffs conducted weekly conference calls with housing agencies to discuss Recovery Act-related questions and obtain updates on the obligation status of funds. Moreover, the officials noted that continuing outreach was made by telephone and e-mail or in person, with one-on-one technical assistance provided to housing agencies, as needed.

We visited four public housing agencies in Texas. Table 1 lists the agencies, the amount of funds awarded, and the planned use of the funds.

Table 1: Recovery Act Public Housing Capital Fund Formula Grants in Texas—Planned Use of Funds by Four Public Housing Agencies

Public housing agency and total funds awarded	Planned use of funds
San Antonio Housing Authority (SAHA) \$14,557,802	<ul style="list-style-type: none"> Comprehensive modernization improvements to Lewis Chatham Apartments (119 units), an elderly and disabled community. Upgrades to elevator, fire alarm, and security systems at 5 elderly communities. Safety and sustainability repairs and improvements to playgrounds in public housing family communities. Various site and system repairs and replacements, including sliding glass doors; roofing; fencing; cabinets; and heating, ventilation, and air-conditioning (HVAC) systems.
Housing Authority of the City of El Paso (HACEP) \$12,715,540	<ul style="list-style-type: none"> Roofing and HVAC systems replacements in 15 communities. Water and wastewater line replacements in 2 communities. Windows replacements in 2 communities.
McKinney Housing Authority \$343,674	<ul style="list-style-type: none"> Windows and roofing replacements at various sites.
Ferris Housing Authority \$57,868 ^a	<ul style="list-style-type: none"> Windows and sewer lines replacements, bathroom renovations, and drainage work.

Source: GAO summary of HUD and public housing agencies' data.

^aFerris Housing Authority had expended its funds as of June 2009 for the planned improvements, as we noted in our July 2009 report ([GAO-09-580](#)).

The four agencies acknowledged the variety and extent of the assistance and outreach efforts provided by HUD. One of the housing agencies—the San Antonio Housing Authority (SAHA)³⁷—asked for assistance from HUD’s San Antonio Field Office in preparing a request for a Buy American

³⁷Of the hundreds of public housing agencies in Texas, SAHA received the highest amount (\$14.6 million) of Public Housing Capital Fund formula grants awarded under the Recovery Act.

waiver.³⁸ Specifically, SAHA wanted permission to purchase a specialized heating, ventilating, and air conditioning system manufactured in Japan. The request was based on an engineering consultant's recommendation that cited energy-efficiency and maintenance considerations as well as market research that found no domestic manufacturer of the specialized system. In November 2009, SAHA submitted the request to HUD's San Antonio Field Office. HUD's Assistant Secretary for Public and Indian Housing responded in December that the request was "well supported by the appropriate documentation" and granted SAHA a waiver.³⁹

In early March 2010—before the impending March 17 obligation deadline for Recovery Act funds—the Housing Authority of the City of El Paso (HACEP)⁴⁰ had obligated 27 percent of the \$12.7 million received. HACEP officials explained that they had postponed awarding contracts and decided to resolicit proposals for roofing work after receiving bids that HACEP considered to be inflated. The officials added that in arriving at this decision, HACEP and HUD Fort Worth Regional Office officials had frequent discussions about the need to meet the obligation deadline. The HACEP officials further explained that the resolicitation was issued with an outreach beyond the immediate El Paso area. This management effort, according to the officials, resulted in substantial cost savings that allowed HACEP to fund additional improvements to properties—while still meeting the March 17th obligation date.

Officials at the HUD offices and the public housing agencies we contacted commented that staff priorities and workloads were adjusted as needed to accommodate handling both Recovery Act and regular public housing capital grant funds. HUD officials cited forming new teams with existing resources to handle Recovery Act demands and continue regular capital fund grant management activities. Similarly, housing agency officials cited adjusting their resources to ensure meeting the Recovery Act's obligation date while continuing to obligate regular capital grant funds. For example,

³⁸Section 1605(a) of the Recovery Act states that, "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States."

³⁹According to HUD's Fort Worth Regional Office, the waiver approved for SAHA is unique; that is, there have been no other waiver requests from public housing agencies in the region.

⁴⁰HACEP received the second highest amount (\$12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act.

by shifting priorities and increasing their workloads, two of the four housing agencies reported that they met the Recovery Act's deadline (March 17, 2010)—and also had obligated over 50 percent of their fiscal year 2009 regular capital grant funds as of February 28, 2010, or about 19 months before the funds must be obligated.⁴¹ As of March 31, 2010—about 6 months into the 2-year time frame for obligating fiscal year 2009 regular capital grant funds—the other two housing agencies reported that they had obligated no regular funds but had met the Recovery Act's obligation deadline.

None of the four public housing agencies that we contacted expressed difficulty meeting HUD's requirements for the use of capital grant funds, such as the requirement for priority consideration to low- and very low-income persons and the businesses that employ them when creating opportunities using the funds.⁴² However, a McKinney Housing Authority official stated that the agency has few staff, which—coupled with the shortened time frames for obligating and expending Recovery Act funds—presented concerns in deciding whether to start projects. Also, a Ferris Housing Authority official—one member of the agency's two-person staff—said that reporting requirements have been burdensome. The official stated that although his agency obligated its Recovery Act funds early on, the agency has had to submit several reports on matters such as the number of jobs created and/or retained. Another agency, SAHA, commented that complying with the Recovery Act's Buy American provision presented some challenges. However, as previously discussed, SAHA requested a waiver for one renovation project; and, with assistance from HUD's San Antonio Field Office, the waiver was granted.

⁴¹Under 42 U.S.C. § 1437g(j), public housing agencies must generally obligate 100 percent of their funds within 2 years of the date the funds are made available.

⁴²Section 3 is a provision of the Housing and Urban Development Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. Among other requirements under this provision, housing agencies are to meet goals including (1) 30 percent of the aggregate number of new hires shall be Section 3 residents (low and very low-income persons residing in the community in which HUD funds are spent regardless of race and gender), (2) 10 percent of all covered construction contracts shall be awarded to Section 3 business concerns (businesses that substantially employ low and very low-income persons residing in the community in which HUD funds are spent), and (3) 3 percent of all covered non-construction contracts shall be awarded to Section 3 business concerns.

Various Entities Are Responsible for Monitoring Expenditures

Oversight responsibilities for monitoring expenditures of Public Housing Capital Fund formula grants awarded under the Recovery Act involve various entities—particularly HUD’s Office of Inspector General and HUD’s program office for public housing. In 2009, HUD’s Office of Inspector General (Region VI) conducted Recovery Act-related capacity audits of two public housing agencies in Texas—the Dallas Housing Authority and the Travis County Housing Authority.⁴³ The Office of Inspector General reported that the Dallas Housing Authority demonstrated the capacity to administer its grant in accordance with requirements.⁴⁴ In contrast, the Office of Inspector General reported that the Travis County Housing Authority lacked the capacity to administer Recovery Act funds.⁴⁵ Among other considerations, the Office of Inspector General recommended that HUD’s San Antonio Field Office increase monitoring and oversight of the Travis County Housing Authority’s financial and program activities.

As of March 31, 2010, the Office of Inspector General reported that it had no other ongoing or planned capacity audits in Texas regarding Public Housing Capital Fund grants awarded under the Recovery Act.

However, public housing program officials in HUD’s Fort Worth Regional Office and San Antonio Field Office plan to continue monitoring public housing agencies’ use of Recovery Act funds by, among other means, conducting remote and on-site reviews. As noted previously, these reviews are to include use of standardized checklists, modified as applicable to focus on the appropriateness of expenditures. The officials explained that the reviews are to determine if the public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities. More specifically, according to HUD’s monitoring and oversight guidance, the local program offices are to review disbursements and expenditures for a minimum of 25 percent of the total Recovery Act grant for each non-troubled public

⁴³ A capacity audit is a limited scope review to determine whether a grantee’s administrative systems are capable of effectively administering a large influx of Recovery Act funds—that is, to determine whether the public housing authority has the capacity to properly account for Recovery Act funding and the controls to ensure those funds are expended only for eligible program activities.

⁴⁴ HUD, Office of Inspector General, Region VI, Audit Report Number 2010-FW-1001, issued December 18, 2009.

⁴⁵ HUD, Office of Inspector General, Region VI, Audit Report Number 2009-FW-1801, issued August 17, 2009.

housing agency, including at least one construction/modernization contract.⁴⁶ Also, for public housing agencies categorized as “troubled,” the guidance provides for additional monitoring and oversight by HUD field offices as deemed necessary to ensure proper use of Recovery Act funds.

The public housing agencies that receive Recovery Act funds are to ensure that the funds are used appropriately, particularly when negotiating contracts and monitoring the performance of contractors. Through their procurement processes and procedures, these agencies are to directly oversee the commitment and disbursement of Recovery Act funds. SAHA, which received the largest amount (\$14.6 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, plans to use more than \$6 million of the funds to modernize a 119-unit apartment complex (Lewis Chatham Apartments) for elderly and disabled residents. In March 2010, we visited San Antonio to observe the status of ongoing renovations at the Lewis Chatham project; and, at SAHA, we reviewed contracts and related documents. According to SAHA officials, the renovation work at the Lewis Chatham project was being procured through competitive bidding processes. We previously visited the Lewis Chatham modernization project in May and October 2009, as discussed in our December 2009 report.⁴⁷ The report noted that—in the wake of federal bribery-related indictments in June 2009 against several employees⁴⁸—SAHA had taken measures to strengthen internal controls. Among other actions taken, officials explained that SAHA revised its Procurement Policy and Procedures manual in August 2009 to assign specific responsibilities to department directors.⁴⁹ According to officials, the

⁴⁶HUD defines a construction/modernization contract as one that includes a commitment of funds for contract labor and/or materials; and, the contract should be a non-services contract in which activities relate to construction, modernization, and/or demolition.

⁴⁷[GAO-10-232SP](#).

⁴⁸U.S. Department of Justice, U.S. Attorney’s Office, Western District of Texas, press release (June 18, 2009), “Five San Antonio Housing Authority Employees Charged in Federal Bribery-Related Indictments.” The press release noted that an indictment is a formal accusation of criminal conduct, not evidence of guilt, and that the defendants are presumed innocent unless and until convicted through due process of law. As of April 2010, U.S. District Court (Western District of Texas) records showed that one of the defendants had pled guilty and that the other four defendants were awaiting trial.

⁴⁹More recently, on January 5, 2010, SAHA revised the manual for Recovery Act purposes to require a file retention time frame of 3 years; that is, records are to be retained for a period of 3 years after final payment and all matters pertaining to the applicable contract are closed.

revised manual stipulates that each department director is responsible for establishing quality control mechanisms for procurement activities within the respective department.

Officials further explained that the manual also specifies that the Chief Financial Officer is responsible for the oversight of all procurement activity within SAHA. At our request, the Chief Financial Officer provided us documentation of control activities conducted by SAHA's Facilities and Construction Services Department, which manages projects funded by the Recovery Act. For construction contracts, the documented control activities include a series of check-and-balance steps before payments are made to contractors. During our March 2010 visit to SAHA, department staff walked us through a demonstration of how the various steps operate.

Regarding the number of jobs funded with Recovery Act Capital Fund formula grant dollars, in April 2010, SAHA reported 29.05 full-time equivalents into FederalReporting.gov. To help ensure accuracy in job reporting, SAHA officials said that the agency requires its contractors to use a standardized instrument for submitting hours worked on Recovery Act projects each quarter.

HACEP, which received the second highest amount (\$12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, is using most of its funds (\$11.4 million or 90 percent) for modernization efforts that include replacing roofs, windows, HVAC systems, and water and sewer lines. In early March 2010, we visited HACEP. During our visit, we noted that a contract entered into by HACEP in November 2009—a roofing contract for \$702,800—did not include a Buy American provision. However, in response to our inquiry, HACEP officials obtained confirmation from the manufacturer that the shingles being used in the project are American made. Further, the officials stated that all other contracts do contain a Buy American provision. Our review of current contracts at the time of our March 2010 visit confirmed that the provision was included. Furthermore, according to HACEP officials, all of these contracts were awarded competitively.

Use and Impact of Recovery Act Funds by State of Texas and Local Governments

As of March 28, 2010, Texas state entities had spent about \$8.3 billion of the approximately \$17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office.⁵⁰ The amount of Recovery Act funding that has been spent varies among programs, and Texas state agencies continue to prepare for the end of Recovery Act funding. At the local government level, city officials in Austin, Dallas, and Houston reported they plan to use Recovery Act funds to expand existing programs and support new programs. However, while finding the federal funds useful in advancing specific priorities, the city officials anticipated the funds would have a limited overall impact on their ability to address growing budgetary challenges.

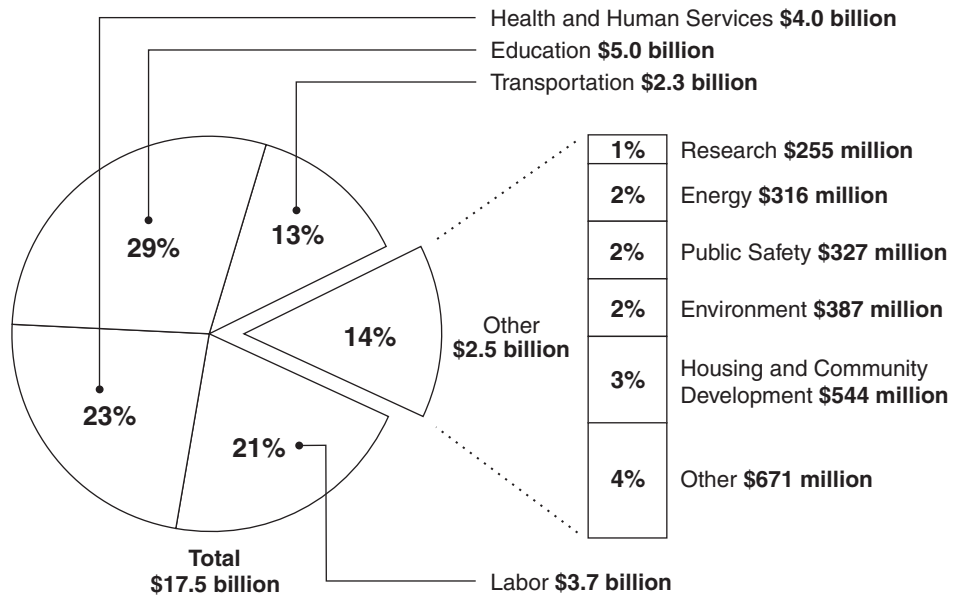
State of Texas Continues to Use Recovery Act Funds

The State Comptroller's Office reports that approximately \$17.5 billion in Recovery Act funds have been awarded to Texas state entities, as of March 28, 2010.⁵¹ The State Comptroller's Office classifies Recovery Act funding awarded to state entities into 10 categories. Each category includes multiple Recovery Act programs; for example, the housing and community development category includes the Weatherization Assistance Program as well as four other programs. As shown in figure 1, four categories—Health and Human Services, Education, Transportation, and Labor—account for about 86 percent or \$15 billion of the \$17.5 billion awarded to Texas state entities.

⁵⁰The term "state entities" refers to state agencies and public institutions of higher education. According to the State Comptroller's staff, in this context the term "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity. The State Comptroller's staff also indicated the term "awarded" here means an agreement exists between a state and a federal entity to provide Recovery Act funds to the state entity.

⁵¹In addition to the \$17.5 billion, Texas state entities reported applying for approximately \$1.94 billion in Recovery Act competitive grants. As of March 28, 2010, Texas state entities had not been awarded these grants.

Figure 1: Recovery Act Funding Awarded to Texas State Agencies and Public Institutions of Higher Education by Category (as of March 28, 2010)



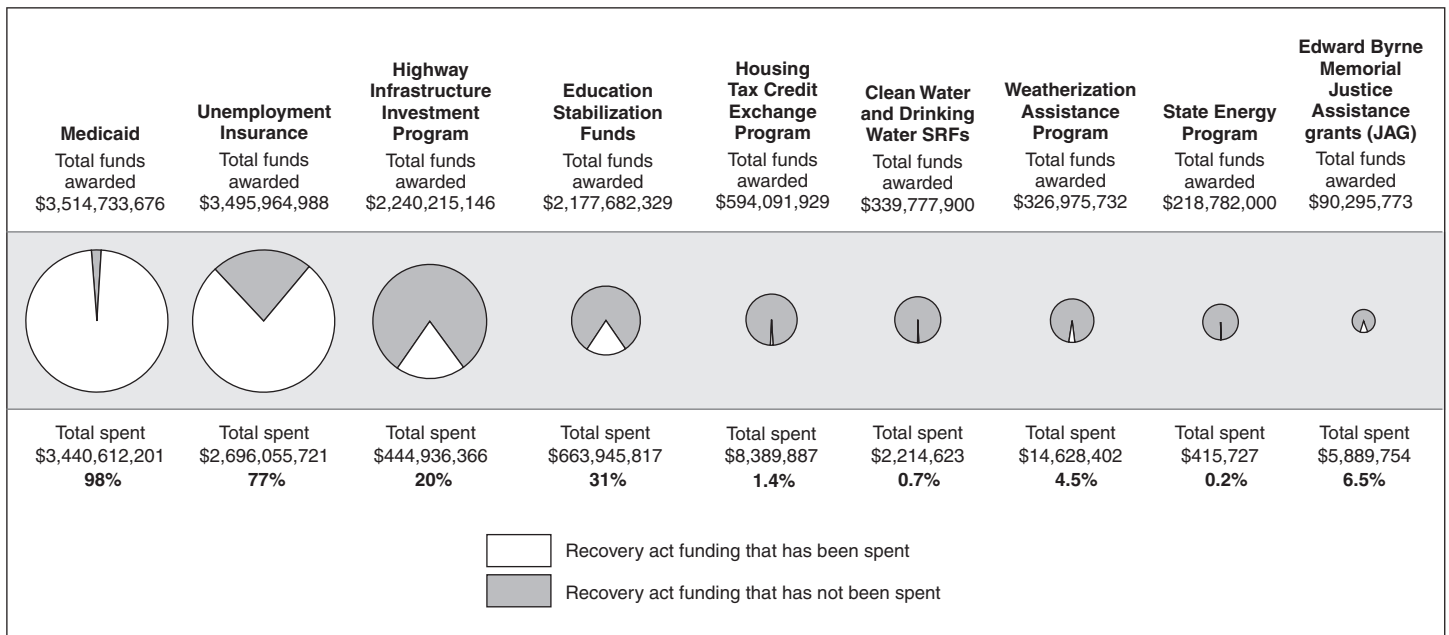
Source: State Comptroller's Office.

Notes: As reported by the State Comptroller's Office, the funding categories are based on the Catalogue of Federal Domestic Assistance, a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. According to the State Comptroller's Office, the funding information summarized in the figure does not reflect Recovery Act funding for local Texas governments and other non-state entities. For example, public housing agencies receive funds directly from the U.S. Department of Housing and Urban Development.

Of the \$17.5 billion in Recovery Act funds, the State Comptroller's Office reported that approximately \$8.3 billion (or 48 percent) have been spent, as of March 28, 2010. The Governor's office told us the state is neither accelerating nor decelerating the use of Recovery Act funds; rather, state entities determine how to utilize Recovery Act funds.

Figure 2 shows funds awarded and funds spent in nine programs that account for nearly \$13 billion (or about 74 percent) of the total amount of Recovery Act funding (\$17.5 billion) awarded to Texas state entities. As of March 28, 2010, the percentage of funds spent in these nine programs varied significantly.

Figure 2: Recovery Act Funding Available and Spent in Nine Selected Programs in Texas (as of March 28, 2010)



Source: State Comptroller's Office.

Officials characterized the two programs with the highest spend-out rates of Recovery Act funding as entitlement programs. For example, the Texas Health and Human Services Commission explained that Medicaid pays for health care services provided to eligible clients. The Texas Workforce Commission provided a similar explanation for unemployment insurance payments, characterizing these as entitlement payments to eligible claimants.⁵² The Governor's staff explained program specific characteristics make spend out rates appear much higher for the two entitlement programs shown on figure 2 than the other programs shown on the figure. They indicated the amount of funding awarded to Texas for these programs could increase in the future, depending on demand for these programs. The Governor's staff as well as agency officials reiterated

⁵²We have not reviewed unemployment insurance as part of our bimonthly reports on the Recovery Act. However in July 2009, we issued a report addressing this topic. See GAO, *Unemployment Insurance Measures Included in the American Recovery and Reinvestment Act of 2009*, [GAO-09-942R](#) (Washington, D.C.: July 27, 2009).

that Texas will continue to fund such programs as Medicaid.⁵³ For infrastructure-related programs, spend-out rates are determined partly by the work and timelines of contractors. Regarding the Highway Infrastructure Investment program, for example, the Texas Department of Transportation explained that contractors are paid based on the progress of projects.

We also asked the nine state agencies to describe their plans or exit strategies regarding the end of Recovery Act funding. As noted in our previous bimonthly reports, the Texas governor and legislature have advised state agencies that Recovery Act funding is temporary. In his proclamation concerning the state's budget for the 2010-2011 biennium, the governor stressed that "state agencies and organizations receiving these funds should not expect them to be renewed by the state in the next biennium." The biennium will end on August 31, 2011. The state agencies we examined responded that they are taking various actions. For example, the Texas Education Agency, which is responsible for education stabilization funds, reported that it has advised local educational agencies that Recovery Act funds should be "invested in ways that do not result in unsustainable continuing commitments after the funding expires."⁵⁴ In another case, the Office of the Governor's Criminal Justice Division reported to us that each recipient of Justice Assistance grants must acknowledge that "awards under the Recovery Act are one-time awards and that its proposed projects and deliverables are to be accomplished without additional funds." Other agencies expect to continue programs and activities. The Health and Human Services Commission reported that Texas will continue to fund the Medicaid program. Also, as part of its normal program, the Texas Department of Transportation noted that it planned to continue working on transportation projects that have been supported by the infusion of Recovery Act funds. The Governor's staff noted these two programs existed before the Recovery Act and received supplemental funding through the Recovery Act.

⁵³As GAO has previously reported, Medicaid programs generally represent an entitlement under which the federal government is obligated to pay its share of expenditures for covered services provided to eligible individuals under each state's federally approved Medicaid plan.

⁵⁴Education stabilization funds are part of the State Fiscal Stabilization Fund, which also includes government services funds used for public safety and other government services.

**Texas Local Governments’
Use of Recovery Act Funds**

We assessed the use of Recovery Act funding for three local governments in Texas—the cities of Austin, Dallas, and Houston. Table 1 provides information about the three localities and identifies their largest Recovery Act awards. Officials in the three cities we visited cited various positive effects that Recovery Act funds are expected to have on their communities. Austin officials noted that Recovery Act funds will help reduce the city’s energy demand and greenhouse gas emissions, which supports the city’s commitment to being a leader in sustainability and green infrastructure. They said the Recovery Act funding enabled them to move projects forward, such as the Hornsby Bend Biosolids Management Plant clean water project. The city of Austin is also receiving a grant, Communities Putting Prevention to Work, from the Department of Health and Human Services that focuses on decreasing tobacco use.

As table 2 shows, the largest Recovery Act award to the city of Dallas is a \$23 million Transportation Investment Generating Economic Recovery (TIGER) competitive grant from the Department of Transportation. The TIGER grant is to be used to start work on a project for a proposed streetcar line in downtown Dallas to improve connectivity between jobs and residents. Dallas officials also commented that public safety is the city’s top priority and Recovery Act Community Oriented Policing Hiring Recovery Program (CHRP) funds helped the city hire 50 additional police officers. Houston officials noted Recovery Act grants would help expand curbside recycling and expand the city’s existing weatherization assistance program.

Table 2: Use of Recovery Act Funds by Three City Governments in Texas

Locality information		Programs providing the largest amounts of Recovery Act funding ^a
Austin	Type of local government	City • Clean Water State Revolving Fund (SRF)—(\$31.8 million)
	Population	757,193 • Communities Putting Prevention to Work—(\$7.5 million)
	Unemployment rate	7.0% • Energy Efficiency and Conservation Block Grant—(\$7.5 million)
	Operating budget	\$614.9 million • Highway Infrastructure Investment—(\$6.4 million)
	Total Recovery Act funds ^a	\$71.9 million • Weatherization Assistance Program—(\$5.8 million)
Dallas	Type of local government	City • Transportation Investment Generating Economic Recovery—(\$23 million)
	Population	1,279,910 • Weatherization Assistance Program—(\$13.2 million)
	Unemployment rate	9.2% • Energy Efficiency and Conservation Block Grant—(\$12.8 million)
	Operating budget	\$2 billion • Community Oriented Policing Hiring Recovery Program (CHRP)—(\$8.9 million)
	Total Recovery Act funds ^a	\$82.0 million • Edward Byrne Memorial Justice Assistance Grant—(\$7.1 million)
Houston	Type of local government	City • Weatherization Assistance Program—(\$23.4 million)
	Population	2,242,193 • Energy Efficiency and Conservation Block Grant—(\$22.8 million)
	Unemployment rate	8.4% • Highway Infrastructure Investment—(\$14.5 million)
	Operating budget	\$1.67 billion (before debt service) • Homeless Prevention and Rapid Re-Housing Program—(\$12.4 million)
	Total Recovery Act funds ^a	\$104.6 million • Community Development Block Grant—(\$8.1 million)

Source: GAO analysis of data obtained from City of Austin; City of Dallas; City of Houston; U.S. Census Bureau; and U.S. Department of Labor, Bureau of Labor Statistics (local area unemployment statistics).

Note: City population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

^aOfficials in each city (Austin, Dallas, and Houston) said that they are awaiting decisions on applications for additional Recovery Act funds.

The three local governments said they are facing growing budgetary challenges as they are awarded Recovery Act funding. In 2009, the Federal Reserve Bank of Dallas reported that the recession affected Texas later than other areas of the nation.⁵⁵ The report noted that “the Texas economy continued to expand while the nation fell into a recession.” However, in the latter part of 2008, the state’s economic conditions deteriorated, and the Federal Reserve Bank determined that Texas began 2009 in recession.

⁵⁵Federal Reserve Bank of Dallas, “Recession Arrives in Texas: A Rougher Ride in 2009,” in *Southwest Economy* (First Quarter 2009), 3.

In 2010, the Federal Reserve Bank reported the state's economy is improving but also noted that "consumer spending—which makes up the lion's share of Texas' economy—remains flat and may continue to constrain growth."⁵⁶ The local officials we spoke with confirmed their governments are experiencing the effects of the recession, pointing to figures showing declines in sales tax revenue. For example, according to Houston's estimate for the city's 2010 budget, sales tax revenue is expected to decrease more than 8 percent. Furthermore, officials in all three cities said that budget reductions continue to be made in response to declining revenues, such as implementing hiring freezes, eliminating raises, and reducing library hours.

City government officials commented that while helpful to furthering specific efforts, Recovery Act funds had a limited overall budgetary impact. The officials attributed the limited impact of Recovery Act funding to several factors. Specifically, the officials noted that Recovery Act funding is directed to programs outside a city's general fund and is going toward projects with one-time expenses. Further, the officials commented that the amounts of Recovery Act funds awarded are relatively small compared to the respective city's overall budget. For example, as shown in table 2, Houston was awarded approximately \$104.6 million in Recovery Act funding but has an operating budget of approximately \$1.67 billion. City government officials in Austin, Dallas, and Houston also noted instances in which their respective city did not receive Recovery Act funding that the city had sought. For example, Houston officials discussed several grant applications that were not selected, such as the CHRP, TIGER, and the Clean Water and Drinking Water SRFs. In summary, while identifying factors that limit the overall impact of Recovery Act funds on local budgets, officials from all three cities clearly indicated that the federal funds would have positive effects for their communities.

⁵⁶Federal Reserve Bank of Texas, "Texas Economy Shakes Off Rough Ride in 2009," in *Southwest Economy* (First Quarter 2010), 6.

State and Local Government Efforts in Accountability for Recovery Act Funds in Texas

Texas state entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The Texas State Auditor's Office (SAO) continues to review jobs and expenditure reporting under the Recovery Act. Also, SAO recently completed the Single Audit in a timelier manner than is required by federal law, thereby providing early written communication of internal control deficiencies. As described previously, state agencies continue oversight and monitoring efforts to ensure accountability for use of Recovery Act funds. The local governments we reviewed in Texas are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

State Auditor's Office Has a Significant Accountability Role

In reference to Texas's use of Recovery Act funds, SAO has completed one performance audit and has another performance audit ongoing. In March 2010, SAO released an audit reviewing jobs and expenditure reporting in two programs overseen by the Texas Education Agency (TEA), ESEA Title I and Individuals with Disabilities Education Act (IDEA).⁵⁷ The audit found TEA established an adequate process to ensure program expenditures and job creation information self-reported by local educational agencies was collected and included in the recipient reports required in September 2009.⁵⁸ However, audit findings point to the importance of continuing monitoring activities. The two local educational agencies the auditors visited incorrectly reported the number of jobs by 45 percent and 6 percent, respectively.⁵⁹ The auditors explained that one local educational agency did not follow TEA guidance and another used an informal process

⁵⁷Texas State Auditor's Office, *American Recovery and Reinvestment Act Funds for Selected Programs at the Texas Education Agency*, SAO Report No. 10-024 (Austin, Tex.: March 2010).

⁵⁸The audit report did, however, describe challenges TEA faced in developing guidance. The auditors found that TEA—from September 25, 2009, to October 1, 2009—provided inconsistent methodology for local educational agencies to use in reporting jobs. Specifically, one guidance document advised local educational agencies to calculate a baseline of the number of hours that would have been worked in the absence of Recovery Act funds, a point not mentioned in two other guidance documents. TEA and the auditors disagree on whether this was a substantial shift. However, both TEA as well as the auditors pointed to challenges resulting from federal guidance. Specifically, the audit report notes, "the U.S. Department of Education released its guidance on or about September 21, 2009. This left TEA staff just a few working days to assimilate this information, disseminate it internally, and provide it to more than 1,200 local educational agencies."

⁵⁹The auditors visited the Pasadena Independent School District and the Alvin Independent School District.

of emails and verbal exchanges.⁶⁰ SAO also recommended TEA monitor and follow up with local educational agencies to facilitate the regular and timely draw down of Recovery Act funds to ensure all Recovery Act funds are obligated by September 30, 2011, as required by state and federal law. TEA agreed with the recommendation and reported taking a number of actions, including monitoring of local educational agencies' draw down of funds, reaching out to districts with low or no draw downs, and publicizing draw down information on the agency's Web site. The Governor's staff told us TEA does not have legal authority to require local educational agencies to spend Recovery Act funding more quickly.

Going forward, a senior official in SAO reported the office is now reviewing jobs and expenditure reporting for the Workforce Investment Act of 1998 (WIA) Programs, including Youth, Adult, and Dislocated Worker. The official said that SAO expects to release a report in summer 2010.

Recently, the auditor for the state of Texas issued the Single Audit report significantly earlier than required by federal law and, also provided earlier written communication of internal control deficiencies over compliance for state entities.⁶¹ SAO, on February 22, 2010, issued the federal portion of the Statewide Single Audit Report for Texas's 2009 fiscal year.⁶² SAO issued the report less than 6 months after Texas's fiscal year ended on

⁶⁰The Pasadena Independent School District did not follow TEA guidance that the number of jobs should be calculated as full-time equivalents by dividing the number of funded hours into the total number of hours in a full-time schedule.

⁶¹Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires, states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

⁶²The federal audit clearinghouse received this report on March 26, 2010. The federal audit clearinghouse operates on behalf of the Office of Management and Budget to disseminate audit information to federal agencies and the public. The Single Audit requires grantees to submit a financial reporting package, including the financial statements and the Single Audit report, to the clearinghouse no later than 9 months after the end of the grantee's fiscal year under audit.

August 31, 2009.⁶³ Texas's efforts are noteworthy in demonstrating that the Single Audit can be completed in less time than the requisite 9 months and can provide early warnings of deficiencies in internal control over compliance as state entities expend Recovery Act funds. In regards to timing, we recommended starting in April 2009 in our bimonthly reports that the federal Office of Management and Budget (OMB) adjust the current audit process to, among other things, provide for review of internal controls before significant Recovery Act expenditures occurred.⁶⁴ We noted that the statutory deadline to complete the Single Audit and submit a state's financial reporting package to the federal audit clearinghouse—specifically 9 months after an entity's fiscal year ends—is too late to allow the audited entity to take corrective action on internal control deficiencies before significant expenditures of Recovery Act funds. Moreover, the timing problem had been exacerbated by extensions to the 9-month deadline—extensions that have been routinely granted in past years. For example, seven states in our review of Recovery Act funds completed their fiscal year on July 1, 2008, but requested and received extensions to submit their Single Audit financial reporting packages after March 31, 2009. While OMB has recently issued guidance on March 22, 2010, which states that extensions should no longer be granted, Texas demonstrated that the Single Audit can be completed in less time than the requisite 9 months. A senior SAO official told us that Texas had been issuing its Single Audit report within 6 months of the end of its fiscal year even before the Recovery Act.⁶⁵ The official explained that the Single Audit work is done concurrently with completing the state's financial statements.⁶⁶

We asked the SAO senior official to identify key factors that, in her view, facilitated Texas's completion of the Single Audit work as well as work on

⁶³Texas budgets on a biennial basis, which consists of 2 fiscal years. Each fiscal year is September 1 through August 31 and is specified by the ending calendar year. For example, fiscal year 2009 was September 2008 through August 2009. The biennium for budget purposes runs 2 years. For example, the 2010-2011 biennium is September 1, 2009 through August 31, 2011.

⁶⁴GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: April 23, 2009), 53-54.

⁶⁵For example, the Texas State Auditor issued the Statewide Single Audit Report for fiscal year 2008 on February 20, 2009.

⁶⁶The SAO official said a Texas statute requires the state's financial statements to be completed within 6 months of the end of the fiscal year.

the financial statements. The senior official identified two important factors:

- The State of Texas is investing significant audit resources. For the fiscal year 2009 audit, 114 members of SAO's approximately 180 audit staff worked on the audit. Moreover, SAO billed state agencies and institutions of higher education approximately \$5.6 million for its work on the fiscal year 2009 audit, including financial opinion work as well as federal compliance work.⁶⁷ In addition, SAO anticipates using its own funds to pay some of the costs.
- The State of Texas has supplemented its efforts with assistance from a public accounting firm, which is essential for providing the personnel needed and a national perspective. Moreover, contracting with the public accounting firm allows SAO to do more performance audits while still fully participating in the Single Audit, which is an important role of SAO.

Texas volunteered to participate in a project that OMB sponsored. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken.⁶⁸ In our December 2009 national summary of the Recovery Act, we commended the states, including Texas, that elected to participate in the project.⁶⁹ We asked the SAO official how Texas's participation in this project may have facilitated the state's completion of the Single Audit report. As noted previously, the SAO official explained the Single Audit work is done concurrently with completing the state's financial statements, which must be completed within 6 months of the end of the fiscal year. Texas had been issuing its Single Audit report by this time frame, before the Recovery Act and OMB's project. The SAO official told us, however, that Texas wanted to

⁶⁷The SAO official noted that the State Auditor's Office can bill state agencies and institutions of higher education for the cost of the audit.

⁶⁸OMB implemented a Single Audit Internal Control Project (project) in October 2009. The project is a collaborative effort among the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states, including Texas, volunteered for the project.

⁶⁹GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: December 10, 2009).

participate in the project to demonstrate its interest in accountability for federal funds as well as Recovery Act funds. On the project, SAO would like OMB to consider allowing for additional flexibility in the conduct of the work.

Texas's Single Audit report also provided early warning of potential risks to state entities as Recovery Act funds are disbursed. A SAO senior official noted the Single Audit identified a weakness in determining eligibility for three programs—Medicaid, Temporary Assistance for Needy Families, and Supplementary Nutrition Assistance Program. Texas has been awarded \$3.51 billion in Recovery Act funding for Medicaid, \$57.5 million for Temporary Assistance for Needy Families, and \$27.8 million for the Supplementary Nutrition Assistance Program, according to March 28, 2010, data from the State Comptroller's Office. The SAO official noted that challenges in determining program eligibility existed before the Recovery Act, as the state transitioned between computer systems. Federal Inspector General officials—in reviewing Texas's Single Audit report—characterized the eligibility-determination issue as a “material weakness, a material instance of non-compliance, as well as a repeat finding.” The Texas Health and Human Services Commission reported it intends to finalize a corrective action plan by May 31, 2010, including evaluating methods to monitor documentation used to support eligibility for the three programs identified above. Also, the Governor's staff reported that the Texas Health and Human Services Commission is taking additional actions, including modifying the eligibility system to ensure key documents are verified and maintained as well as developing a management plan to improve the accuracy of eligibility determinations. The Governor's staff indicated that many of these actions are to be completed by the end of calendar year 2010.

Further, we asked the SAO official to what extent the Single Audit had identified new risks related to the Recovery Act. One risk SAO expects will be addressed is the requirement that recipients, such as state agencies and subrecipients, register with the federal government's Central Contractor Registration (CCR), which is intended to provide basic information relevant to procurement and financial transactions. The Single Audit found, for example, that one state agency was unaware of this requirement and consequently did not verify food bank subrecipients had registered before providing Recovery Act funds.⁷⁰ The SAO senior official expected

⁷⁰According to the Single Audit report, the Texas Department of Agriculture subsequently notified all food banks and had them register with CCR by September 30, 2009.

this risk to lessen as state agencies become more familiar with requirements. Consequently, Texas's timely completion of the Single Audit provides the state an opportunity to address and mitigate potential risks. As noted previously, Texas has not yet spent the majority of the Recovery Act funds awarded to state entities, as of March 28, 2010.⁷¹

Local Government Audit Offices Also Have a Significant Accountability Role

The local governments we reviewed also reported taking steps to safeguard Recovery Act funds. We previously reported the Dallas city auditor did a preliminary risk assessment before the city received significant amounts of Recovery Act funding. In an October 2009 report, the auditor noted the city faces increased risks because Recovery Act funds must be expended quickly, mandatory reports must be completed within short time frames, and some city departments have not previously administered grants. The auditor made a number of specific recommendations, which city management has said will be implemented. The city auditor has continued to monitor Recovery Act funding and is planning to issue reports every quarter assessing the city's efforts.⁷² On April 23, 2010, the city auditor released one such quarterly audit report.⁷³ Of particular importance, the report noted that no "allegations of fraud, waste, and abuse" have been received by the city auditor's office.

In March 2010, a representative from the Austin city auditor's office told us that the office is planning a two-pronged approach to monitoring Recovery Act funds. The approach, according to the city auditor's office representative, focuses on (1) ensuring that departments understand the specific requirements of the Recovery Act and (2) conducting tests of specific Recovery Act projects for compliance with requirements.

Also, in April 2010, the Houston acting city auditor told us that the city is taking various actions to ensure accountability for Recovery Act funds. These actions include, for example, conducting an enterprise risk assessment to comprehensively identify risks the city's various

⁷¹As noted previously, the State Comptroller's staff told us "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity.

⁷²The timing of the audit reports are to be based on recipient reporting required by the Recovery Act.

⁷³Dallas City Auditor, *Audit of American Recovery and Reinvestment Act of 2009: January 1, 2010 to March 31, 2010* (Dallas, Tex.: April 23, 2010).

departments face. The acting city auditor noted that he had contacted counterparts in the Dallas city auditor's office to discuss risk-assessment approaches. Also, the Houston acting city auditor commented that the Single Audit is expected to provide specific coverage of Recovery Act funds. Further, to address the Recovery Act's reporting requirements, the acting city auditor said that the city has formed a committee with representation from city management and the City Controller's Audit Division.

Texas's Comments on This Summary

We provided the Governor of Texas with a draft of this appendix on May 5, 2010. A senior official (the Director of Financial Accountability) in the Office of the Governor responded on May 10, 2010. The majority of the senior official's comments relate to WAP. Generally, the senior official commented that the draft appendix did not adequately reflect Texas's view that the significant delays in the state's weatherization efforts were principally the result of DOE actions and decisions. More specifically, the senior official commented that DOE (1) denied the state's request to significantly expand the network of weatherization providers, (2) did not provide the state with required Davis-Bacon wage information for major metropolitan areas for nearly a year after passage of the Recovery Act, (3) changed reporting requirements significantly and failed to timely provide written guidance, and (4) has yet to provide multifamily weatherization training to Texas after numerous requests. To address these comments, we incorporated more specific information on Texas's efforts to work with DOE as well as DOE's perspectives on the state's progress in weatherizing units. For example, we incorporated information that according to Texas officials DOE denied the state's request to expand the network of weatherization providers. However, we also incorporated information that in April 2010 DOE reported that it had not been pleased with the state's progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress. As appropriate in this appendix, we also incorporated the senior official's suggestions for technical clarifications regarding WAP and other relevant programs and activities.

In addition, we also provided a copy of applicable sections of a draft of this appendix to the City of Austin, the City of Dallas, and the City of Houston. Officials from the respective cities generally agreed with the information presented and provided technical suggestions that we incorporated where appropriate.

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**Staff
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In addition to the contacts named above, Fredrick Berry, Danny Burton, James Cooksey, K. Eric Essig, Erinn Flanagan, Ken Howard, Michael O'Neill, and Gloria Proa made major contributions to this report.

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DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

23 MAR 2010

Mr. Michael G. Gerber
Executive Director
Texas Department of Housing and Community Affairs
221 East Eleventh Street
Austin, TX 78711-3941

RECEIVED
MAR 29 2010
EXECUTIVE DIRECTOR

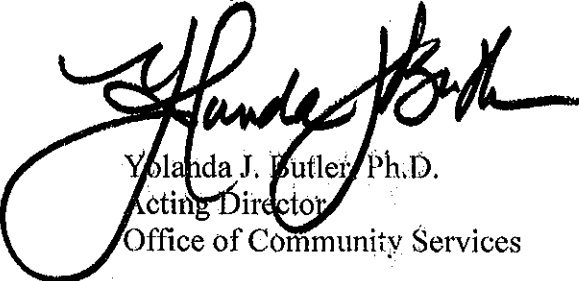
Dear Mr. Gerber:

Enclosed is the final report on the findings of the Texas Community Services Block Grant Program (CSBG) State Assessment review conducted February 2009 by the Administration for Children and Families (ACF) Office of Community Services (OCS). We have incorporated the comments received from the State into the final report.

Please develop and submit a Corrective Action Plan (CAP) within 30 days from the receipt of this document. The CAP should describe the finding and how the State will resolve the findings which will include a timeline for completion.

This letter confirms that the State of Texas Assessment Report is now final. We look forward to continuing both our efforts in working with you to meet the purpose and goals of the CSBG program. OCS can provide you guidance in the development of an amended Corrective Action Plan (CAP), if requested. If you have any questions or concerns, please contact Frances Harley at (202) 401-6888 or Frances.Harley@acf.hhs.gov.

Sincerely,



Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services

Enclosures



DEPARTMENT OF HEALTH & HUMAN SERVICES
Administration for Children and Families
Office of Community Services

Community Services Block Grant Program

Texas State Assessment

On-Site Review

Final

February 23-27, 2009

Texas State Assessment

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Texas Community Services Block Grant

I. Executive Summary

The Community Services Block Grant (CSBG) program provides assistance to States and local communities, working through a network of Community Action Agencies (CAAs) and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals to become fully self-sufficient. CSBG-funded programs create, coordinate, and deliver a broad array of programs and services to low-income Americans. The grant's purpose is to fund initiatives to change conditions that perpetuate poverty, especially unemployment, inadequate housing, poor nutrition, and lack of educational opportunity.

The Governor of Texas designated the Texas Department of Housing and Community Affairs (TDHCA) as the appropriate State agency to act as the lead agency for the administration of the CSBG program. The Texas CSBG program provides funding, technical assistance, and support to 53 eligible entities serving 254 counties. The CAAs provided an array of services according to the Community Action Plans (CAP) formulated to address local needs. Services may include: housing, energy assistance, nutrition, employment and training as well as transportation, family development, child care, health care, emergency food and shelter, domestic violence prevention services, money management, and micro-business development. The information contained in this report was compiled for a State Assessment (SA) of the Texas Community Services Block Grant program and its eligible entities as evaluated by Federal staff of the Division of State Assistance (DSA), Office of Community Services (OCS), an office within the Administration for Children and Families (ACF), U.S. Department of Health and Human Services (HHS).

State Assessment Authority

State Assessments (SAs) are conducted to examine the implementation, performance, compliance, and outcomes of a State's CSBG program to certify that the State is adhering to the provisions set forth in Sections 678B and 676(b) of the Coats Human Services Reauthorization Act, Public Law 105-285. On December 21, 2007, OCS issued Information Memorandum 105, explaining that DSA would conduct both on-site and desk monitoring visits during Federal Fiscal Years 2008-2010. Federal staff conducted a desk review of the Texas CSBG program and its eligible entities from February 23-27, 2009. The evaluation included interviews and analyses of the data collected. As per the statute, the SA examines the State, and its CAA's assurances of program operations including:

1. Activities designed to assist and coordinate services to low-income families and individuals, including those receiving assistance under the Temporary Assistance to Needy Families (TANF) program, the elderly, homeless, migrant and seasonal workers, and youth;
2. Coordination of service delivery to ensure linkages among services, including as it relates to employment and training activities, the Low Income Home Energy Assistance Program (LIHEAP), with faith-based and other community-based charitable organizations, and other social services programs;
3. Innovative approaches for community and neighborhood-based service provision;
4. Ability to provide emergency food and nutrition to populations served;
5. Adherence to statutory procedures governing the termination and reduction of funding for the local entity administering the program;

6. Adequate and appropriate composition of Tripartite Board and CAA rules;
7. Appropriate fiscal and programmatic procedures to include a Community Action Plan from the CAAs that identifies how the needs of communities will be met with CSBG funds; and
8. Participation in the performance measurement system, the Results Oriented Management and Accountability (ROMA) initiative.¹

The SA also examines the fiscal and governance issues of the eligible entity that provide CSBG funded services in local communities, the CAAs, as well as the State's oversight procedures for the eligible entities. Fiscal and governance issues examined include:

1. Distribution methodology for disbursement of CSBG funds to the eligible entities;
2. Fiscal controls and accounting procedures;
3. State administrative expenses;
4. Mandatory public hearings conducted by the State Legislature; and
5. General procedures for governing the administration of the CSBG Program, including board governance, non-discrimination provisions, and political activities prohibitions.

Methodology

The State Assessment consists of two levels of evaluation by Federal staff:

1. Federal staff examined the State-level assurances, fiscal and administrative governance issues regarding the CSBG program in interviews and data collection with State officials.
2. Federal staff conducted desk assessments of the State's monitoring of the CAAs to determine compliance with assurances and governance requirements by gathering information from local agencies, engaging in additional interviews and data collection.

State-level interviews included the following Texas Department of Housing and Community Affairs officials: Ms. Amy Oehler, Director of Community Affairs Division; J. Al Almaguer, Senior Planner; Laura S. White, Program Development and Training Officer; David Cervantes, Director of Financial Administration; and Sandra Q. Donoho, Director of Internal Audit; Esther Ku, Manager of Accounting Operations; David Aldrich, Manager of Budget, Payroll and Travel; Kristinia Vavra Payroll Specialist.

OCS reviewers assessed the following entities: the Dallas Urban League, Dallas-Fort Worth, TX; Parks and Community Services Department, Fort Worth, TX; City of Austin, Austin, TX; Community Action Agency, Inc. of Hayes, Caldwell, and Blanco Counties; City of San Antonio, San Antonio, TX.

Office of Community Services reviewers included: Frances Harley, Financial Operations Team Leader; Isaac Davis, Program Specialist; Michael Pope, Auditor; and Emmanuel Djokou, Auditor.

¹ Some assurances have been combined where appropriate.

II. Assessment and Findings

The OCS reviewers collected information pertaining to the fiscal and programmatic procedures of the State agency, as well as other general information about the State's programs, including:

- Administrative, program and financial operations for the State and the CAAs assessed;
- Brochures and literature on services provided;
- The most recent CSBG Financial Summary Report;
- SF 269 report for Fiscal Year (FY) 2006 showing total funds authorized;²
- Audited Financial Statements; and
- The Texas State CSBG Plan.

Fiscal and Governance Operations

The CSBG statute requires that each State designate a lead agency to administer the CSBG program, and that the lead agency should provide oversight of the local entities that administer programs in the communities. The Governor designated The Texas Department of Housing and Community Affairs (TDHCA) as the lead agency to administer the CSBG program. In FY 2006, the State allocated 90 percent of CSBG funds to the eligible entities and CAAs. The State used five percent for discretionary, five percent for training and technical assistance and funding to eligible entities to address non-traditional community needs. OCS reviewers were unable to follow the Federal funds in the general ledger.

Based on the support documents provided by the State, the OCS reviewers were unable to determine whether the State had a system in place to accurately validate the information certifying that individuals were served at 125 percent of poverty, which is based on annual income.

Table 1 illustrates the distribution of Federal funds allocated in Texas.

Table 1

Use of FY 2006 Funds: Texas		
Uses of Funds	Amount Expended	Percentage of Expenditures
Grants to Local Eligible Entities	\$27,187,769	90%
Administrative Costs	\$ 1,188,752	5%
Discretionary Projects	\$ 1,305,387	5%
Total Used in FY 2006	\$29,681,908	100%

According to TDHCA, administrative expenditures were used for the management and monitoring oversight of the program. Discretionary funds were disbursed to the CAAs for their use based on their community needs assessment. However, OCS reviewers were unable to adequately verify the expenditures using CSBG funds. The State should ensure that financial records are complete for review in accordance with the statute.

² The SF 269—Short Form is used to report the amount of program income earned and the amount expended.

Administrative Monitoring and Accountability

The CSBG statute requires States to monitor local agencies to determine whether they meet performance goals, administrative standards, and financial management standards, as well as other State-defined criteria. The State has procedures in place to ensure the CAAs has a system of governance, financial and human resource management, program and service delivery, and community relations. The State requires the CAAs to submit applications to receive their CSBG allotments annually. The process of approval is based on: 1) standard forms; 2) governing board approval; and 3) information about how the entity will provide services in their communities.

Financial Monitoring and Accountability

States are required by Federal statute to perform monitoring duties in a full on-site review at least once every three years for each eligible entity. The State recently changed its monitoring schedule from once every three years to annually. A draft monitoring report is developed and issued within 30 days of the on-site visit. The report identifies deficiencies, issues, and concerns requiring corrective action(s), as approved by the board. Follow-up visits were coordinated with the CAA if deficiencies were noted during the on-site visit. A final report is sent to the Board Chairperson and the Executive Director of the agency. Not all site visits require a focus on the entire CSBG program but they may focus on specific areas during the State's assessment the review of the other Federal grant programs such as Low Income Home Energy Assistance Program (LIHEAP); Results Oriented Management and Accountability (ROMA); board issues; or training and technical assistance.

Section 678B (a)(1) requires that "the State shall conduct the following reviews of eligible entities:

- (1) A full on-site review of each such entity at least once during each three-year period.
- (2) An on-site review of each newly designated entity immediately after the completion of the first year in which such entity receives funds through the CSBG program.

TDHCA Division Standard Operations and Procedures Manual outline the State's monitoring procedures, and objectives. The Community Services Section under the Community Affairs Division is responsible for conducting on-site program monitoring visits at least once every three years. On-site monitoring reviews are conducted to meet the following objectives: Review of sub-recipient performance; Review compliance to applicable State and Federal regulations, policies and statutes; To prevent fraud and abuse; and to identify technical assistance needs. The CAAs and eligible entities are identified in Table 2 (on the following page).

Table 2

Texas Visits		
Agency Name	On-site Visits	Counties Served
Asociacion Pro Servicios Sociales	N/A	Jim Hogg, Starr, Webb, Zapata
Aspermont Small Business Development Center, Inc.	September 5-8, 2006	Haskell, Jones, Kent Knox, Stonewall, Throckmorton
City of Austin Health and Human Service Dept.	N/A	Travis
Bee Community Action Agency	October 16-19, 2006	Aransas, Bee, Kenedy, Live Oak, Refugio
Big Band Community Action Committee, Inc.	September 11-14, 2006	Brewster, Culberson, Hudspeth, Jeff Davis, Preidio
Brazos Valley Community Action Agency	September 11-14, 2006	Brazos, Burleson, Chambers, Grimes, Leon, Liberty, Madison, Montgomery, Robertson, Walker, Waller, Washington
Cameron and Willacy Counties Community Projects, Inc.	April 25-28, 2006	Cameron, Willacy
Caprock Community Action, Inc.	August 8-11, 2006	Crosby, Dickens, Floyd, Hale, King, Motley
Central Texas Opportunities, Inc.	August 7-9, 2006	Brown, Callahan, Coleman, Comanche, Eastland, McCulloch, Runnels
Combined Community Action, Inc.	June 19-22, 2006	Austin, Bastrop, Colorado, Fayette, Lee
Community Action Committee of Victoria Texas	N/A	Calhoun, De Witt, Golland, Gonzales, Jackson, Lavaca, Victoria
Community Action Corporation of South Texas	September 25-28, 2006	Brooks, Jim Wells, San Patricio
Community Action Inc., of Hays, Caldwell and Blanco Counties	N/A	Blanco, Caldwell, Hays
Community Action Program, Inc.	N/A	Mitchell, Shackelford, Stephens, Taylor
Community Action Social Services & Education	December 18-21, 2006	Maverick
Community Council of Reeves County	August 21-24, 2006	Loving, Reeves, Ward, Winkler
Community Council of South Central Texas, Inc.	October 23-26, 2006	Atascosa, Bandera, Comal, Frio, Gillespie, Guadalupe, Karnes, Kendall, Kerr, Medina, Wilson
Community Council of Southwest Texas, Inc.	May 30-June 2, 2006	Edwards, Kinney, Real, Uvalde, Val Verde, Zavala
Community Services Agency of South Texas	October 10-13, 2006	Dimmit, La Salle
Community Services of Northeast Texas, Inc.	N/A	Bowie, Cass, Marion, Morris, Camp
Community Services, Inc.	May 1-3, 2006	Anderson, Collin, Denton, Ellis, Henderson, Hunt, Kaufman, Navarro, Rockwell, Van Zandt
Concho Valley Community Action Agency	November 6-9, 2006	Coke, Concho, Crockett, Irion, Kimble, Menard, Reagan, Schleicher, Sterling, Sutton, Tom Green
Dallas Urban League	N/A	Dallas
Economic Action Committee of The Gulf Coast	September 26-28, 2006	Matagorda
Economic Opportunities Advancement Corporation of Planning Region XI	July 25-28, 2006	Bosque, Falls, Freestone, Hill, Limestone, McLennan
El Paso Community Action Program, Project BRAVO, Inc.	N/A	El Paso
City of Fort Worth Parks & Community Services Department	N/A	Tarrant
Galveston County Community Action Council, Inc.	September 11-14, 2006	Brazoria, Fort Bend, Galveston, Wharton
Greater East Texas Community Action Program	May 15-18, 2006	Angelina, Cherokee, Gregg, Houston, Nacogdoches, Polk, Rusk, San Jacinto, Smith, Trinity, Wood

Texas Visit		
Agency Name	On-site Visits	Counties Served
Guadalupe Economic Services Corporation	N/A	Bailey, Briscoe, Castro, Cochran, Crosby, Deaf Smith, Dickens, Floyd, Garza, Hale, Hall, Hockley, Lamb, Lubbock, Lynn, Motley, Parmer, Swisher, Terry, Yoakum
Gulf Coast Community Services Association	N/A	Harris
Hidalgo County Community Services Agency	April 10-13, 2006	Hidalgo
Hill Country Community Action Association, Inc.	August 21-24, 2006	Bell, Coryell, Hamilton, Lampasas, Llano, Mason, Milam, Mills, San Saba
City of Lubbock Community Development Department	November 13-16, 2006	Lubbock
Northeast Texas Opportunities, Inc.	October 9-12, 2006	Delta, Franklin, Hopkins, Lamar, Rains, Red River, Titus
Nueces County Community Action Agency	N/A	Nueces
Panhandle Community Services	August 14-17, 2006	Armstrong, Briscoe, Carson, Castro, Childress, Collingsworth, Dallam, Deaf Smith, Donley, Gray, Hall, Hansford, Hartley, Hemphill, Hutchinson, Lipscomb, Moore, Ochiltree, Oldham, Palmer, Potter, Randall, Roberts, Sherman, Swisher, Wheeler
Pecos County Community Action Agency	December 4-7, 2006	Crane, Pecos, Terrell
Rolling Plains Management Corporation	N/A	Archer, Baylor, Clay, Cottle, Foard, Hardeman, Jack, Montague, Wichita, Wilbarger, Young
City of San Antonio Department of Community Initiatives	November 1-3, 2006	Bexar
Sin Fronteras Organizing Project	N/A	El Paso
South Plains Community Action Association, Inc.	N/A	Bailey, Cochran, Garza, Hockley, Lamb, Lynn, Terry, Yoakum
South Texas Development Council	N/A	Jim Hogg, Starr, Zapata
Southeast Texas Regional Planning Commission	N/A	Hardin, Jefferson, Orange
Texas Homeless Network	N/A	Statewide
Texas Neighborhood Services	October 23-26, 2006	Erath, Hood, Johnson, Palo Pinto, Parker, Somervell, Wise
Texoma Council of Governments	July 25-28, 2006	Cooke, Fannin, Grayson
Tri-County Community Action, Inc.	N/A	Harrison, Jasper, Newton, Panola, Sabine, San Augustine, Shelby, Tyler, Upshur
Webb Count Community Action Agency	June 5-8, 2006	Webb
West Texas Opportunities, Inc.	November 27-30, 2006	Andrews, Borden, Dawson, Ector, Fisher, Gaines, Glasscock, Howard, Martin, Midland, Nolan, Scurry, Upton
Williamson-Burnet County Opportunities, Inc.	June 12-15, 2006	Burnet, Williamson

OCS reviewers examined the State's monitoring procedures and a representative sample of completed monitoring tools, reports, backup documentation and corrective action letters. Through documentation reviews and interviews with State staff responsible for monitoring, OCS reviewers determined that State has reasonable and responsible internal controls for conducting monitoring reviews for its eligible entities.

The State's CSBG program year is from October 1 through September 30. In the last quarter of the State's calendar year, any costs incurred by the entities prior to that first quarter are reimbursable subject to the State's receipt of Federal fiscal year funds.

The Fiscal Office operates on behalf of the State, preparing monthly reports that are the primary tools for evaluating allowable expenditures and tracking budget line items. According to the State, monthly reports are prepared by the State's Financial Administrator. Eligible entities and CAAs are encouraged to use an electronic transfer system for fund reimbursements. OCS reviewers examined the available monthly reports and a sampling of the subsequent CSBG disbursement from randomly selected eligible entities and CAAs. Administrative costs include salaries and benefits for employees paid with CSBG funds. Hours charged to the CSBG program vary weekly based upon the amount of time spent working on CSBG-related program.

OCS reviewers examined a sampling of the hours charged for CSBG-related projects and how the recorded time is processed through payroll. TDHCA issues credit cards for employee expenditures.

In accordance with Section 678D, States that receive funds shall make appropriate books, documents, papers, and records available to the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request for the item(s).

According to 45 CFR §92.20 (b)(6), accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents.

According to 45 CFR §92.42 (4)(e), The awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and sub-grantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts.

OCS reviewers examined the State's internal audit process. State auditors are required to examine all State funding made to the eligible entities dating back to the previous State audit. Any audit finding(s) are reported to the CAA Executive Director and Boards of Directors. The CAA Boards of Directors are required to respond to the notification letter within 30 days with a written Corrective Action Plan (CAP) that addresses the findings. Audit Office staff must review and approve the CAP. The CAA's failure to respond within the allotted timeframe may result in disciplinary actions being taken by the State, up to and including funds de-obligation. The lead auditor is the State official responsible for audit follow-up activities, including resolution and corrective action monitoring. Technical assistance is available through the State on a case-by-case basis for eligible entities with audit findings. The OCS reviewers had no findings for technical assistance.

OMB Circular A-133, Single Audit Act of 1997

According to 45 CFR §96.31, grantees and subgrantees are responsible for obtaining audits in accordance with OMB Circular A-133, "*Audits of State, Local Governments, and Non-Profit Organizations.*" Agencies expending \$500,000 or more in any year, must contract with an independent auditor to review their financial statements and Federal expenditures. The auditing firm for the State conducts the fieldwork, issues the audit report, and submits the required reporting forms to the Federal Audit Clearinghouse (FAC) with reportable findings. The State CSBG Plan submitted to OCS requires that an audit report is prepared annually.

State audits are performed to determine whether: 1) costs and program income activities were properly summarized and reported; 2) internal controls meet the State's standards; 3) costs charged to the grant were allowable; and 4) the State is in full financial compliance.

The State audits are conducted under the standards of the Institute of Internal Auditors. The State's auditing firm also considers the government auditing standards promulgated by the Comptroller General, U.S. Government Accountability Office, in the performance of their duties.

The Office of the State Auditor has completed their most current audit of selected accounts included on the financial statements of the State ending August 31, 2005. The State Auditor concluded that no matters involving State internal control over financial reporting and its operations were considered to be material. The results of their tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*. A copy of the audit report was provided to OCS reviewers.

OCS reviewers examined the FAC Data Collection Form for reporting on Audits of States, Local Governments, and Non-Profit Organizations found on the FAC website. The OCS reviewers found the State forms were written and submitted in accordance with the Federal requirements. The State Auditor found no areas of noncompliance, reportable conditions, including material weaknesses, questioned costs, fraud, or other reportable items for CSBG. OCS reviewers also recognize that the State adheres to the accounting principles and financial reporting standards established by the Governmental Accounting Standards Board³

Recapture and Redistribution

The State has certified in the State's CSBG plan that it adheres to Section 678C of the CSBG statute. The State implemented a policy to recapture and redistribute funds to CAAs that were unobligated at the end of a fiscal year if such funds exceed 20 percent of the amount for that fiscal year. OCS reviewers found no instances of noncompliance.

Carryover Balance

States may recapture and redistribute funds to an eligible entity that are unobligated at the end of a fiscal year if such unobligated funds exceed 20 percent of the amount distributed to the eligible entity. States must redistribute such funds to an eligible entity, or require the original recipient of the funds to redistribute the funds to a private, nonprofit organization, located within the community served by the original recipient of the funds, for activities consistent with the purposes of the CSBG Act.

In accordance with 45 CFR §92.40, §92.41, and §96.30(b)(4), respectively, the grantee shall submit annual program progress and financial status reports using Short Form, SF-269A. The first report is due 90 days after the end of first year (i.e. December 30, 2006). Financial Status Reports (FSRs) were due December 30, 2007. Failure to submit reports on time may be the basis for withholding financial assistance payments, suspension, or termination of funding. During our assessment, OCS

³ The authoritative bodies of establishing accounting principles and financial reporting standards are the Governmental Accounting Standards Board (state and local governments), and the Financial Accounting Standards Board (nongovernmental entities).

reviewers noted the State did not submit its Financial Status Report (FSR) in accordance with 45 CFR §92.40, §92.41, and §96.30(b)(4).

Grantees are required to adhere to a provision of the law under the Consolidated Appropriations Act of 2005 which requires that to the extent FY 2006 CSBG funds are distributed by a State to an eligible entity, and have not been expended by such eligible entity, they shall remain with such eligible entity for carryover and expenditure into the next fiscal year.

Public Hearings

According to Section 676(a)(2)(B), at the beginning of each fiscal year, a State must prepare and submit an application and State Plan covering a period of one year and no more than two fiscal years. Each year, the State's CSBG State Plan is sent to the CSBG Advisory Committee, the State General Assembly, and all eligible entities. In conjunction with the development of the State Plan, the State holds at least one public hearing. For FY 2005-2006, the plan was available from September 20 through October 30, 2004 for public review and comment. Legislative Public Hearings were held on September 27, 28, 29 and 30, 2004 with the State Legislature's Joint Labor, Health, and Social Services Interim Committee. The Intended Use Report was made available on the TDHCA website or by written request to the Texas Department of Housing and Community Affairs.

Tripartite Boards

The State requires CAAs to submit a listing of their Tripartite Board membership prior to being approved to administer the CSBG program. CAAs must comply with Section 676B of the CSBG Statute which requires that members are chosen in accordance with democratic selection procedures to assure that not less than one-third of its members are representatives of low-income individuals and families who reside in the neighborhoods served. The remaining members are public officials or members of business, industry, labor, religious, law enforcement, education, or other major groups interested in the community serviced. Members must actively participate in the planning, implementation, and evaluation of the program that services their low-income communities.

The CAAs must have their Tripartite Board certified annually to ensure the board has received orientation and/or training, which outlines and describes their responsibilities and liabilities. The certification of the Tripartite Board training must be documented in the Board minutes. The approved minutes must include the type of training, date(s) of the training, and meeting attendees. Additionally, certification must include an annual audit of services, expenditures, and reporting requirements for State, Federal, and other funding sources. These requirements are included in the contract signed between the CAAs and the State, the CSBG manual, the State Plan, and the CSBG statute. The State-outlined responsibilities of the Tripartite Board include:

- Ensuring that all administrative requirements are met;
- Establishing policies, rules, regulations and bylaws consistent with the agency's mission;
- Establishing accounting systems and fiscal controls consistent with general accounting principles;
- Establishing policies prohibiting nepotism;
- Avoiding conflict of interest;
- Involvement in directing the agency's operation through regular board meetings; and
- Acceptance of liability for and resolving any questioned cost identified by audits.

In accordance with Federal and State law, each CSBG grantee, in order to be in full compliance, is required to adhere to the composition, documentation, bylaws, board manual, and board meeting minutes as detailed in the CSBG Act of 1998, Section 676B. The State CSBG office is required to monitor board composition and follow-up with the CAAs when representation needs to be adjusted. The State assured OCS that the CAAs adhere to the statute regarding Tripartite Boards by providing information regarding the requirements of a Tripartite Board to each eligible entity in three documents: CSBG Operations Manual, the CSBG Grant Agreement, and the CSBG assurances submitted with the State Plan each year.

OCS reviewers determined that the State demonstrated reasonable internal controls for monitoring and approving the Tripartite Board certifications.

Additional Administrative or Fiscal Operations Findings

The State is required to maintain a current financial procedures manual in order to meet fiscal standards set forth by Federal regulations. Financial reports are required monthly. Quarterly financial reports are due within 30 days of the end of each quarter and annual fiscal reports are required at the end of the State's fiscal year. The annual on-site compliance review conducted by the State should determine compliance to specific areas including financial compliance. Failure to comply with State and Federal reporting requirements may result in corrective action including suspension of grant awards.

According to 45 C.F.R. § 96.30 Fiscal and administrative requires: (a) Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

According to the CSBG statute, the State is required to have processes in place to provide oversight of CSBG funds. OCS reviewers were unable to adequately validate the following: 1) all requested documents; 2) statistical sampling of the State's General Ledger to determine if CSBG expenditures were allowable, allocable, and supported by documentation; and 3) the State's accounting reports, when requested.

The OCS reviewers' analyses of the State's records and procedures that included administrative, financial, and programmatic operations, determined that \$508,121.41 of Program Allocation funds and \$480,802.33 of Administrative Allocation funds were held beyond the grant period ending on September 30, 2007. According to 45 C.F.R. § 96.14(a)(2), no funds may be obligated after the end of the fiscal year following the fiscal year for which they were allotted.

The State needs to comply with policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect cost charged to CSBG funding stream and expenditures in accordance with Federal regulations.

Program Operations

The State reported demographic information on individuals who received services using CSBG funds in FY 2006. CAAs operate numerous programs designed to meet the needs identified in their respective service areas. Due to different local needs, not all CAAs provide services in all priority areas. During this State Assessment, agency records were reviewed to assess actual services provided. The assessment instrument addresses the following areas: client services received, expenditures, staff responsibility, board governance, by-laws, board meeting minutes, board manual, personnel, planning and operations, CSBG assurances, fiscal, T&TA grants, T&TA grant review, and agency postings (i.e., worker's compensation, client appeals).

The eligible entities operate numerous programs designed to meet the needs identified in their respective service areas. Because the demographic data show different local needs, not all eligible entities can provide extensive services in all priority areas. Supportive services and community outreach projects provided by the entities respond to low-income worker's health care. The State and CAAs categorize their expenditures of CSBG funds according to the statutory list of program purposes. The categories are as follows:

- Securing and maintaining employment;
- Securing adequate education;
- Improving income management;
- Securing adequate housing;
- Providing emergency services;
- Improving nutrition;
- Creating linkages among anti-poverty initiatives;
- Achieving self-sufficiency; and
- Obtaining health care.

The State requires agencies receiving CSBG funds to prepare and submit an application referred to as a "Community Action Plan" to the State. The process requires CAAs to submit an application to the State for approval based on: 1) standard forms; 2) governing board approval; 3) information based on priority needs; and 4) information about how the entities will provide services in their communities. Table 3 shows the reported characteristics of individuals and families served throughout the State.

Based on the Results Oriented Management and Accountability process, the grant agreement outlines the following requirements for the State's CAAs:

- A community needs assessment;
- A description of the service delivery system for low-income individuals and families in the service area;
- A description of linkages that will be developed to fill gaps in service through information, referral, case management, and follow-up consultations;
- A description of how funding will be coordinated with other public and private resources; and
- A description of outcome measures for providing services and promoting self-sufficiency and Texas community revitalization.

Table 3

CSBG Client Characteristics and Statistics Reported by State	
Race/Ethnicity By Number of Persons	
Hispanic or Latino	174,361
African American	73,331
White	232,268
Other	769
Multi-race	1,587
Education/ Years of Schooling by Number of Persons	
0-8 years	47,407
9-12, non graduates	36,749
High school graduate/GED	49,820
12+ some postsecondary	13,849
2 or 4 year college graduates	6,798
Insured/Disabled	
No Health Insurance	201,723
Disabled	47,376
Surveyed About Insurance	316,867
Surveyed About Disability	316,867
Households Headed By Single Parent	
Female	36,902
Male	1,840
Two Parent Household	21,978
Single Person	37,489
Two Adults, No Children	13,395
Family Housing by Number of Families	
Own	50,639
Rent	60,803
Homeless	1,905
Level of Family Income as Percentage of Federal Poverty Guideline by Number of Families	
Up to 50%	52,764
51% to 75%	26,811
76% to 100%	19,483
101% to 125%	11,633
126% to 150%	3,355
151% or more	2,861

Detailed below are the program activities associated with CSBG funds as used by the CAAs in Texas for FY 2006.

Employment Programs

The State reported spending \$1,251,500 in CSBG funds to support a range of services designed to assist low-income individuals in obtaining and maintaining employment. These services include:

- Support for TANF recipients who are preparing to transition to self-sufficiency or for former TANF recipients who need additional support to find or maintain employment;
- Support for job retention, including counseling, training, and supportive services, such as transportation, child care, and the purchase of uniforms or work clothing;

- Skills training, job application assistance, resume writing, and job placement;
- On-the-job training and opportunities for work;
- Job development, including finding employers willing to recruit through the agency, facilitating interviews, creating job banks, providing counseling to employees, and developing new employment opportunities in the community;
- Vocational training for high school students and the creation of internships and summer jobs; and
- Other specialized adult employment training.

Education Programs

The State reported spending \$1,722,405 in CSBG funds to provide education services. These services may include:

- Adult education, including courses in English Second Language (ESL) and General Equivalency Diploma (GED) preparation with flexible scheduling for working students;
- Supplemental support to improve the educational quality of Head Start programs;
- Child care classes, providing both child development instruction and support for working parents or for home child care providers;
- Alternative opportunities for school dropouts and those at risk of dropping out;
- Scholarships for college or technical school;
- Guidance about adult education opportunities in the community;
- Programs to enhance academic achievement of students in grades K–12, while combating drug or alcohol use and preventing violence; and
- Computer-based courses to help train participants for the modern-day workforce.

Housing Programs

The State reported spending \$122,767 for CSBG-coordinated housing programs to improve the living environment of low-income individuals and families. CSBG-funded activities may include:

- Homeownership counseling and loan assistance;
- Affordable housing development and construction;
- Counseling and advocacy about landlord/tenant relations and fair housing concerns;
- Assistance in locating affordable housing and applying for rent subsidies and other housing assistance;
- Transitional shelters and services for the homeless;
- Home repair and rehabilitation services;
- Support for management of group homes; and
- Rural housing and infrastructure development.

Emergency Services Programs

The State reported spending \$13,252,598 for emergency services and crisis intervention. Crisis management services may include:

- Emergency temporary housing;
- Rental or mortgage assistance, intervention with landlords;
- Cash assistance/short term loans;
- Energy crisis assistance and utility shut-off prevention;

- Emergency food, clothing, and furniture;
- Crisis intervention in response to child or spousal abuse;
- Emergency heating system repair;
- Crisis intervention telephone hotlines;
- Linkages with other services and organizations to assemble a combination of short-term resources and long-term support; and
- Natural disaster response and assistance.

Nutrition Programs

The State reported spending \$3,602,239 in CSBG funds to support nutrition programs. Specific nutritional services provided by the State's CAAs may include:

- Organizing and operating food banks;
- Supporting food banks of faith-based and civic organization partners with food supplies and/or management support;
- Counseling family and children's nutrition and food preparation;
- Distributing surplus USDA commodities and other food supplies;
- Administering the Women, Infants, and Children (WIC) nutrition program;
- Preparing and delivering meals, especially to the homebound elderly;
- Providing meals in group settings;
- Initiating self-help projects, such as community gardens, community canneries, and food buying groups;
- Information/referral/counseling;
- Hot meals, such as breakfasts, lunches, or dinners for congregate or home delivery meals;
- Neighborhood and community gardens, community canneries and projects to help families and individuals preserve fruit and vegetables; and
- Nutritional training in home economics, child and baby nutrition, diets, and available federal or State programs.

Self-Sufficiency Programs

The State reported spending \$485,732 on self-sufficiency programs. Self-sufficiency programs offer a continuum of services to assist families in becoming more financially independent. Such programs generally include:

- An assessment of the issues facing the family or family members, and the resources the family brings to address these issues;
- A written plan for becoming more financially independent and self-supporting; and
- Services that are selected to help the participant implement the plan (i.e. clothing, bus passes, emergency food assistance, career counseling, family guidance counseling, referrals to the Social Security Administration for disability benefits, assistance with locating possible jobs, assistance in finding long-term housing, etc.)

Health Programs

The State reported spending \$1,464,893 on CSBG-funded health initiatives. CSBG funds may be used to address gaps in the care and coverage available in the community. The eligible entity may use CSBG funds for health initiatives that include:

- Recruitment of uninsured children to a State insurance group or State Children's Health Insurance Program (SCHIP);
- Recruitment of volunteer medical personnel to assist uninsured low-income families;
- Prenatal care, maternal health, and infant health screening;
- Assistance with pharmaceutical donation programs;
- Health-related information for all ages, including Medicare/Medicaid enrollment and claims filing;
- Immunization;
- Periodic screening for serious health problems, such as tuberculosis, breast cancer, HIV infection, and mental health disorders;
- Health screening of all children;
- Treatment for substance abuse;
- Other health services including dental care, health insurance advocacy, CPR training, education about wellness, obesity, and first-aid; and
- Transportation to health care facilities and medical appointments.

Income Management Programs

The State reported spending \$1,595,704 on income management programs using CSBG grant funds. Services supported include:

- Development of household assets, including savings;
- Assistance with budgeting techniques;
- Consumer credit counseling;
- Business development support;
- Homeownership assistance;
- Energy conservation and energy consumer education programs, including weatherization;
- Tax counseling and tax preparation assistance; and
- Assistance for the elderly with claims for medical and other benefits.

Linkages

The State reported spending \$4,577,186 on linkage initiatives. Linkage programs can involve any or all of a variety of local activities which CSBG supports because of the block grant's statutory mandate to mobilize and coordinate community responses to poverty. These include:

- Coordination among programs, facilities, and shared resources through information systems, communications systems, and shared procedures;
- Community needs assessments, followed by community planning, organization, and advocacy to meet these needs;

- Creation of coalitions for community changes, such as, reducing crime or partnering businesses with low-income neighborhoods in order to plan long-term development;
- Efforts to establish links between resources, such as transportation and medical care or other needed services, programs that bring services to the participants, such as mobile clinics or recreational programs, and management of continuum-of-care initiatives;
- The removal of the barriers such as transportation problems, that keep the poor from jobs or from vital everyday activities; and
- Support for other groups of low-income community residents who are working for the same goals as the CAAs.

At the local level, the CSBG program coordinates with labor programs, transportation programs, educational programs, elderly programs, energy programs, community organizations, private businesses, churches, the United Way, and various youth organizations and programs. The State's eligible entity will coordinate with other service providers and act as a focal point for information on services in their local area. They identify gaps in services and work with other providers to fill those gaps. The entity has organized meetings and participated in task forces with local service provider groups.

Programs for Youth and Seniors

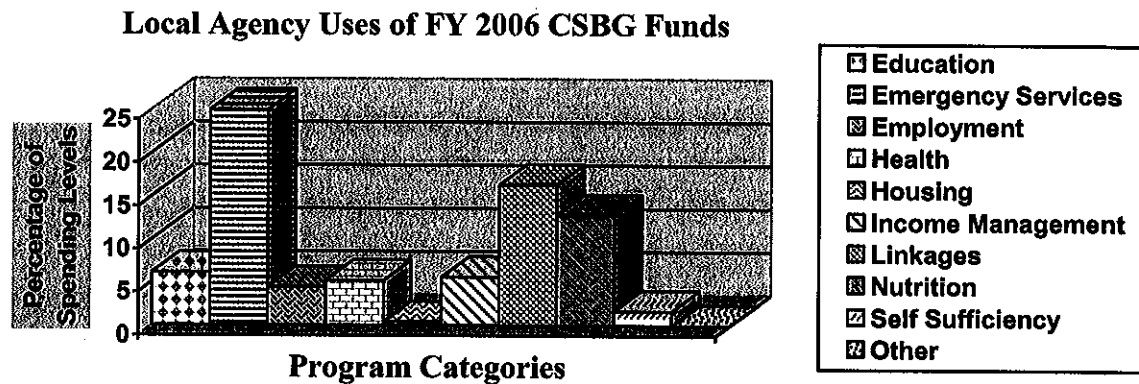
The State's statistical report on the CSBG programs did not indicate a specific dollar amount spent for programs serving youth or seniors. Services noted under these categories were targeted exclusively to children and youth from ages 6–17 or persons over 55 years of age. Seniors' programs help seniors to avoid or address illness, incapacity, absence of a caretaker or relative, prevent abuse and neglect, and promote wellness. They include:

- Home-based services, including household or personal care activities that improve or maintain well-being;
- Assistance in locating or obtaining alternative living arrangements;
- In-home emergency services or day care;
- Group meals and recreational activities;
- Special arrangements for transportation and coordination with other resources;
- Case management and family support coordination; and
- Home delivery of meals to insure adequate nutrition.

Youth programs, in many cases, include such services as:

- Recreational facilities and programs;
- Educational services;
- Health services and prevention of risky behavior;
- Delinquency prevention; and
- Employment and mentoring projects.

The chart below identifies the proportion of CSBG local expenditures devoted to the operational purposes noted above.



Many areas in Texas were affected by hurricanes Katrina and Rita. In addition, many evacuees from the Gulf States were relocated to areas in Texas. As a result, the State increased concentration on emergency services and stabilization activities.

Results Oriented Management and Accountability (ROMA) System

Beginning in FY 2001, States were required to participate in a system to measure the extent to which programs are implemented in a manner that achieves positive results for the communities served. States may participate in the model evaluation system designed by the Office of Community Services in consultation with the CSBG network called the Results Oriented Management and Accountability System, or ROMA. Alternatively, States may design their own similar system. States are to report to OCS their progress on the implementation of performance measurement practices.

III. CAA Onsite Review Summaries

Dallas Urban League

The Urban League of Greater Dallas (ULGD) is a private nonprofit organization located in Dallas, Texas that began operating in 2001. As the designated CAA, the ULGD has four locations, strategically implemented throughout Dallas County and covers 900 square miles. The FY 2006 total annualized budget for the ULGD was \$3,937,603 including a CSBG budget of \$2,155,365. Program services are implemented through their Urban League Community Service Centers. These Centers provide a foundation to enable low-income families and adults to move from poverty to self-sufficiency; improve their lives through community revitalization; own a stake in the community by identifying needs; establish and meet goals; learn, expand and navigate social service and other service networks through community needs assessment; and achieve family stability.

Dallas Fort-Worth

The City of Fort Worth (CFW) is located in Fort Worth, Texas. CFW is a non-profit CAA that began operation in 1983. As a designated CAA, the CFW has ten sites throughout the city. The CFW services area includes Tarrant County. The FY 2006 total annualized budget for the CFW was \$500,000,000 including a CSBG budget of \$1,127,467 with a total of 6,000 agency employees including 20 Full Time CSBG employees. The CFW is one of the 48 CAAs providing services to

low income families and individuals in Texas. Services may include self-sufficiency and emergency services that offers assistance to individuals and families with critical housing and employment needs.

City of Austin

The City of Austin (CA) is located in Austin, Texas, is a non-profit CAA incorporated under Article XI, Section 5 of the Constitution of the State of Texas. The CSBG grant provides administrative support to a network of local Community Action Agencies that provide services to very low-income persons. The City of Austin is considered the CAA for Travis County. The program provides funding for the delivery of basic needs, self-sufficiency, case management; and preventive health services for low-income residents through the city's six neighborhood centers and Travis County's five rural community centers. CA has a total annual budget of \$639,843,000 that includes a CSBG budget of \$803,132.

Community Action, Inc. Hayes, Caldwell, Blanco Counties (CAHCB)

Community Action, Inc. of Hayes, Caldwell, and Blanco Counties was established as a non-profit community action agency in 1965. The main office is located in San Marcos while three satellite offices serve the predominately rural population of Hays, Caldwell, and Blanco Counties. CAHCB's mission is to mobilize its resources and engage the community in order to move families out of poverty and to ensure their children success in school. CAHCB's two largest programs are Head Start and Adult Education. Client services are provided through referral to appropriate community service providers who are partnering agencies. State monitoring has been conducted bi-annually. CAHCB has a total annual budget of \$10,000,000 that includes a CSBG budget of \$300,000.

City of San Antonio

The City of San Antonio, Department of Community Initiatives (DCI) was established as the community action arm of local government in 1979. The headquarters is located in San Antonio with eight satellite offices located strategically throughout the metropolitan area. CSBG funded staff includes; management, administrative and casework staff. They are responsible for providing and coordinating services for clients in their field offices. The mission of the Department of Community Initiatives is to inspire self-sufficiency in individuals and families by respecting and recognizing their desire to make a difference for themselves and their families. DCI provides a wide range of direct services including; utility/rental assistance, case management, counseling, homeless services, education, employment counseling, transportation, and other supportive programming. DCI governance includes a CSBG Advisory Board, which is a Tripartite Board. DCI attends the State Annual Training Conferences, and is an active member of the State Association. The annual budget for the DCI for FY 2006 was \$138,218,541 which included the CSBG award of \$1,865,744.

IV. Assessment Findings and Recommendations

According to CFR §92.43(a) If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency.

According to Section 678D, a State that receives funds shall make appropriate books, documents, papers, and records available to the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request for the items.

FINDING 1 – The State needs to comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSBG funding stream and expenditures in accordance with Federal regulations.

Recommendation(s)

We recommend the State:

- 1.1 Comply with fiscal controls in accordance with State and Federal regulations and submit the 269's in accordance with 45 CFR §92.40, §92.41, 96.14 and §96.30(b)(4).
- 1.2 Revise and/or implement the State's Fiscal policy and procedures to improve fiscal controls for CSBG funding.
- 1.3 Provide a copy of the State policy regarding indirect and administrative cost(s) posted to the General Ledger.
- 1.4 Follow the State's policies for the disbursement of CSBG funds.

State's Comments:

Please refer to Attachment 1, Texas Department of Housing and Community Affairs report responses.

OCS Comment on Finding 1

After reviewing the SF 269, OCS sustains that the Financial Status Report was not submitted in accordance with Federal guidance. OCS on several occasions requested financial documents to be reviewed on or before site visit. Unfortunately, the information was not provided upon request at the time of the site visit.

According to Section 678D, a State that receives funds shall make appropriate books, documents, papers, and records available to the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, for examination, copying, or mechanical reproduction on or off the premises of the appropriate entity upon a reasonable request for the items.

In accordance with 45 CFR §92.40, §92.41, and §96.30(b)(4), respectively, the grantee shall submit annual program progress and financial status reports using Short Form, SF-269A. The first report is due 90 days after the end of first year (i.e. December 30, 2006). Financial Status Reports (FSRs) were due December 30, 2007. Failure to submit reports on time may be the basis for withholding financial assistance payments, suspension, or termination of funding. During our assessment, OCS reviewers noted the State did not submit its Financial Status Report (FSR) in accordance with 45 CFR §92.40, §92.41, and §96.30(b)(4).

FINDING 2 - The State's criterion were not adequate for the issuance of performance awards to eligible entities and CAA's using CSBG funds during Fiscal year 2006.

Recommendation(s)

We recommend the State:

2.1 Provide OCS with the revised policies and procedures to specify the usage of CSBG funds for performance awards.

OCS Comment(s)

OCS sustains their findings with regards to the issuance of the performance awards to eligible entities during Fiscal Year 2006. During the on-site visit, the State did not provide the requested criteria CSBG Memorandum #04-12.04 dated June 18, 2004 (refer to Attachment 1).

After reviewing CSBG Memorandum #04-12.04, OCS determined that the State issued monetary performance awards to eligible entities and/or CAAs who did not meet the eligibility requirements. In addition, the State should ensure that eligible entities and/or CAAs are in compliance with OMB Circular A-133 and the following CSBG statute subsections:

SEC. 678C. Corrective action; Termination and reduction of funding.

SEC. 678D. Fiscal controls, audits, and withholding.

SEC. 678E. Accountability and reporting requirements

OMB Circular A-133, Single Audit Act of 1997

FINDING 3 - The State did not have processes to ensure that eligible entities and CAAs inform and/or refer custodial parents to Child Support services as required by CSBG statute.

Recommendation(s)

We recommend the State:

3.1 Develop and implement procedures according to the statute for referrals to the local child support office.

3.2 Develop and implement procedures that require CSBG grantees and subgrantees conducting case management to document referrals to local child support offices.

OCS Comment(s)

During the corrective action process, the State should provide OCS with a copy of the newly revised State rule(s) related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services.

FINDING 4 - The State needs to ensure that all eligible entities and CAA's are in compliance with the income eligibility requirements for emergency services.

Recommendation(s)

We recommend the State:

4.1 Ensures eligible entities and CAA's verify income eligibility requirements for CSBG funded emergency service programs.

OCS Comment(s):

During the corrective action process, The State should provide copies of their policies and procedures for ensuring income eligibility, and the Declaration of Income Statement.

These are recommendations for the management and administration of the program that should be noted to continue the operations and administration of the CSBG program. The comments and edits received from the State of Texas have been incorporated into the report, and this report is now considered final. If you have any questions or comments, contact:

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Washington D.C. 20447

ATTACHMENT 1

STATE RESPONSES

**Responses from the
Texas Department of Housing and Community Affairs
("TDHCA" or the "State")
to the CSBG Program Texas State Assessment On-Site Review Draft
by the Office of Community Services
U.S. TDHCA of Health and Human Services
("OCS")
Conducted on February 23-27, 2009
Received by TDHCA on June 29, 2009**

Section II. Assessment and Findings

Fiscal and Governance Operations

Page 3, Paragraph 2: OCS states: "The State used five percent for discretionary, five percent for training and technical assistance and funding eligible entities to address nontraditional community needs. OCS reviewers were unable to follow the Federal funds in the general ledger."

TDHCA Comment: The State agrees with the allocation as noted in the first sentence of this paragraph. However, the State is not clear as to on the expressed inability to follow the federal funds in the general ledger. During the visit, TDHCA provided OCS with a chart of accounts, a trial balance produced from the general ledger, a list of subrecipients, drawdown logs, payroll records, and general policies and procedures. The trial balance was organized by grant to identify the CSBG program clearly. The State operates a PeopleSoft Accounting system to maintain the records for the Governmental Fund. The State utilizes General Ledger, Accounts Payable and Grant Modules. It also uses PeopleSoft workflow for the electronic routing of purchase requests. The system is interfaced with the State Comptroller's Integrated Statewide Accounting System (ISAS) and with the State's Uniform Statewide Payroll System (USPS). The State's system is organized by Fund Structure to distinguish Proprietary and Governmental activity clearly. The General Ledger is designed to comply with GASB standards and to be in accordance with Generally Accepted Accounting Principles (GAAP). The inner workings of this system are organized by index to segregate grants such as CSBG. The State also exercises a grant contract management module to track and control subgrantee activities. The activity is tracked by contractor name, amount, and budget category. This system is used to track incoming financial expenditure data, as well, as for the processing of subgrantee draws. In addition to its general policies and procedures the State maintains grant, payroll, accounts payable, travel, and procurement policies. These policies are in place to ensure that there is an ongoing evaluation to ensure accuracy of the financial functions. The existence of these controls is evidenced by Single Audits and Basic Financial Statement Audits performed by the Texas State Auditor's Office (SAO) in conjunction with KPMG and by Deloitte and Touche. In all instances the TDHCA has received an unqualified opinion and/or no instances of internal control deficiencies. In addition, TDHCA's internal auditor recently performed its own audit of CSBG with no mention of internal control issues.

We respectfully request that further specificity be provided regarding this issue and welcome the opportunity to provide additional information/documentation to support any and all costs.

While as an agency of the State of Texas, TDHCA is obliged to use these statewide systems, if any permissible modifications will improve the ability of OCS to review and, thereby, TDHCA's ability to communicate with OCS more effectively, this would be a worthwhile improvement.

Page 3, Paragraph 3: OCS States: "Based on the support documents provided by the State, the OCS reviewers were unable to determine whether the State had a system in place to accurately validate the information certifying that individuals were served at 125 percent of poverty, which is based on annual income."

TDHCA Comment: Please see the State's response to Finding 4 later in this document.

Page 3, Paragraph 4: OCS states: "According to TDHCA, administrative expenditures were used for the management and monitoring oversight of the program. Discretionary funds were disbursed to the CAAs for their use based on their community needs assessment. However, OCS reviewers were unable to adequately verify the expenditures using CSBG funds. The State should ensure that financial records are complete for review in accordance with the statute."

TDHCA Comment: Please see comments above regarding Page 3, Paragraph 2. We respectfully request copies of specific items in question. We would appreciate an opportunity to provide further explanation or documentation to verify and substantiate CSBG expenditures.

Page 7, Paragraphs 1 and 2: The State offers the following edits to text to ensure accuracy: "The State requires that CAA's and other neighborhood-based organizations prepare monthly expenditure reports for CSBG. The monthly CSBG expenditure report is the primary tool for the State to evaluate allowable sugrantee expenditures and for tracking of budget line items. Eligible entities and CAA's are required to use the GENESIS / Community Affairs Contract Management reporting systems to report financial/programmatic information and to submit drawdowns. OCS reviewers examined the available monthly reports and a sampling of the subsequent CSBG disbursement from randomly selected eligible entities and CAA's."

Following paragraphs go on to read, "Administrative costs include salaries and benefits for employees paid with CSBG funds. Hours charged to the CSBG program varies weekly based upon the amount of time spent working on CSBG-related program."

"OCS reviewers examined a sampling of the hours charged for CSBG-related projects and how the recorded time is processed through payroll. TDHCA issues credit cards for employee expenditures."

TDHCA Comments: It is unclear to the State whether the reference to payroll hours and credit cards is to TDHCA or a continuation from the beginning of the first paragraph referring to subrecipients. It would be beneficial for TDHCA to understand the reference thoroughly. In either case, the statement regarding hours is factual. However, should the credit card statement refer to TDHCA, we concur that there is an issuance of credit cards for employee expenditures. To clarify, we would suggest that a statement be added to explain that cards are issued strictly for business related expenses pertaining to travel. Please refer to the attached SOP (Standard Operating Procedure #1210.01), TDHCA Travel Management Program.

Carryover Balance

Page 8 and 9, Paragraph 2: OCS states: "During our assessment, OCS reviewers noted the State did not submit its Financial Status Report (FSR) in accordance with 45 CFR §92.40, §92.41, and §96.30(b)(4)."

TDHCA Comment: The State submitted all FSRs for program year 2006 in compliance with 45 CFR, Sections 92.40, 92.41 and 96.30 (b)(4). The first and second reports were submitted December 20, 2006, and December 12, 2007. The final report was submitted December 16, 2008. Copies of the SF-269s are attached.

Additional Administrative or Fiscal Operations Findings

Page 10, Paragraph 1: The State is required to maintain a current financial procedures manual in order to meet fiscal standards set forth by Federal regulations. Financial reports are required monthly. Quarterly financial reports are due within 30 days of the end of each quarter and annual fiscal reports are required at the end of the State's fiscal year. The annual on-site compliance review conducted by the State should determine compliance to specific areas including financial compliance. Failure to comply with State and Federal reporting requirements may result in corrective action including suspension of grant awards.

TDHCA Comments: The State addresses this requirement through the inclusion and monitoring of contractual requirements that are placed on its subrecipients. The State requires that subrecipients submit monthly reports on a timely basis. TDHCA monitors for this on a daily basis through its fiscal and programmatic operations. In addition, State CSBG monitors perform fiscal on-site reviews to ensure that contractual requirements are met. The State has set procedures for the consolidation of fiscal data in order to issue annual reports to the Federal Government, as well as the completion of the Annual Financial Report (AFR) at the end of the state fiscal year.

Page 10, Paragraphs 2 and 3: OCS states: "OCS reviewers were unable to adequately validate the following: 1) all requested documents; 2) statistical sampling of the State's General Ledger to determine if CSG expenditures were allowable, allocable, and supported by documentation; and 3) the State's accounting reports, when requested."

TDHCA Comments: The State requests further clarification of outstanding or missing requested items to enable it to understand the reasons for any inability to validate adequately: 1) all requested documents; 2) statistical sampling of the State's General Ledger to determine if CSBG expenditures were allowable, allocable, and supported by documentation; and 3) the State's accounting reports, when requested. The State is confident in its policies, procedures, and internal controls to ensure oversight of CSBG funds. This has been consistently validated by independent audits. During the USHHS monitoring review, TDHCA also provided a comprehensive set of policies and procedures to substantiate the contention that the State adheres to the provisions of 45 C.F.R., Section 96.30. We would welcome a reengagement to demonstrate compliance with these provisions.

Page 10, Paragraph 4: OCS: Specified amounts of Program Allocation funds and Administrative Allocation funds were held beyond the grant period ending on September 30, 2007.

TDHCA Comments: This matter was also brought to Management's attention in a report issued by the Internal Auditor on June 11, 2008. Management took action at the time of the finding. This matter was independently verified and cleared by TDHCA's Internal Auditor.

Page 10, Paragraph 5: OCS states: "The State needs to comply with policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect cost charged to CSBG funding stream and expenditures in accordance with Federal regulations."

TDHCA Comments: Please see comments for Page 3, Paragraph 2 and Page 10, Paragraphs 2 and 3.

Section IV. Assessment Findings and Recommendations

FINDING 1 – "The State needs to comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSBG funding stream and expenditures in accordance with Federal regulations." OCS specified four specific recommendations for the State.

TDHCA Comments:

Recommendation 1.1: The State submitted all FSRs for program year 2006 in compliance with 45 CFR, Sections 92.40, 92.41 and 96.30 (b)(4). The first and second reports were submitted December 20, 2006, and December 12, 2007. The final report was submitted December 16, 2008. Copies of the SF-269's are attached.

Recommendation 1.2-1.4: The State respectfully disagrees with the assertion that it does not comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSBG funding stream and expenditures in accordance with Federal regulations. The basis for this response is as set forth in on opinions rendered by independent audit firms such as the Texas State Auditor's Office in conjunction with KPMG and Deloitte and Touche and also by the TDHCA Internal Auditor.

In addition to these opinions, the State is confident in its compliance with all Fiscal and Governance operations. A comprehensive review would reveal that the State goes through a rigorous oversight process. This process begins with a Federal application process resulting in the issuance of the grant award. The process continues through a State Legislative Budget Process that further provides appropriation authority of these funds to TDHCA. The Legislature requires extensive reporting of performance measures and financial data regarding all federal funds made available to the State. The Governor subsequently signs the biennial appropriations bill into law, and TDHCA supplements this process by implementing extensive fiscal and programmatic controls to ensure that it meets State and Federal requirements. TDHCA maintains PeopleSoft as its system of record to track Federal Program Activity. The system is structured to

identify each grant separately and to comply fully with GASB and GAAP. The TDHCA utilizes General Ledger, Accounts Payable, Grant Module, and Purchase Request workflow. It fully interfaces with the State Comptroller and integrates with the Uniform Statewide Payroll System. These modules track grant activity and ensure that a clear trail exists to track each transaction down to the transaction level. Documentation is maintained in permanently scanned repository. Payroll records are supported by timesheets that are reconciled on a monthly basis. There are also further controls established such as drawdown logs to ensure compliance with specific grant requirements. The State also operates under an approved indirect cost rate agreement for recovery of its indirect administrative costs. This agreement is reviewed, reconciled and approved by the U.S. TDHCA of Housing and Urban Development (HUD) on a yearly basis. Please refer to the attached Indirect Cost Rate Agreement dated June 8, 2007. A series of documents to further document our contention of sound fiscal controls and practices are available for review. These documents include a Legislative Appropriations Request (LAR); the Bill that was adopted by the Governor; Internal Operating Budget approved by the TDHCA Board; Indirect Cost Rate Agreement approved by the U.S. TDHCA of Housing and Urban Development; General, Payroll, Travel, Accounts Payable, and Grant policies and procedures.

The State would welcome an opportunity to clarify any misconception regarding the State's ability and commitment to meet any and all Fiscal and Governance standards.

FINDING 2 – The State's criterion were not adequate for the issuance of performance awards to eligible entities and CAA's using CSBG funds during fiscal year 2006. OCS recommended that the State provide them with the revised policies and procedures.

TDHCA Comments:

Recommendation 2.1: TDHCA has a process that includes criterion for awarding CSBG Performance Awards for several years. The process for the 2006 awards was communicated to CSBG eligible entities on June 18, 2004, in CSBG Memorandum #04-12.4, which is included in this response.

The State's authority to utilize CSBG discretionary funds for the performance awards is based on 42 USC 9907(b)(F), granting the State authority to utilize the remainder of the funds to support Statewide activities supporting innovative programs and activities conducted by community action agencies to eliminate poverty and to promote self-sufficiency. TDHCA utilized the 5% State discretionary funds to grant the performance awards in order to promote and advance efforts to assist CSBG eligible clients to attain self-sufficiency. The Department's FFY 2006 and 2007 Intended Use Report, submitted with the FFY 2006 and 2007 State Plan, established a goal of assisting 2,000 persons to achieve incomes above the poverty level and committed to conferring performance awards to CSBG eligible entities that met certain criteria and submitted performance documentation of such.

The attached CSBG Memorandum describes the criteria for an organization to be eligible to apply for a performance award. Additionally, organizations that reported persons transitioned out of poverty were required to submit information which included the name of the head of household, the income of the household during the initial visit, the first month when the

household income was above 125% of the federal poverty guidelines, and 90 days after maintaining an income above 125% of the federal poverty guidelines. The Department compared the number of persons transitioned to the numbers which had been reported in the CSBG monthly performance reports. Program officers, monitors, were also required to review documentation related to such during on site monitoring reviews.

While the Department did not issue specific policy and procedures to CSBG eligible entities on the use of CSBG Performance Awards, CSBG subrecipients who were granted a performance award were informed that the expenditure of the funds had to meet requirements of the OMB Circulars and of the CSBG Act. During on-site monitoring reviews, program officers reviewed expenditures and related documentation verifying the use of CSBG funds.

Beginning in 2008, the Department did not make any CSBG Performance Awards in order to review the process and receive input from CSBG eligible entities on how to strengthen the process and award exemplary services and projects operated by the CSBG network. A CSBG Advisory Committee was appointed by the Department's Executive Director to provide the feedback. The committee met in December 2008 and will continue to meet during the next year to discuss a performance award process. If the Department reinstates the CSBG Performance Award process, the Department will once again develop policies and procedures for this process and ensure that this includes criteria for issuing performance awards as well as guidance to CSBG eligible entities on the use of the CSBG funds issued as performance awards.

FINDING 3 – The State did not have processes to ensure that eligible entities and CAAs inform and/or refer custodial parents to Child Support services as required by CSBG statute. Two specific recommendations were made.

TDHCA Comments:

Recommendation 3.1: CSBG eligible entities inform persons seeking CSBG assistance about the services available through the Texas Attorney General's Office for the collection of child support. The Department has revised the 2009 CSBG Monitoring Instrument to add specific questions regarding the requirements related to informing custodial parents in single-parent families about the availability of child support services and refer eligible parents to the child support offices.

The Department is in the process of drafting State rules, to be filed under the Texas Administrative Code, related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services.

Recommendation 3.2: TDHCA is in the process of drafting State rules, to be reflected under the Texas Administrative Code when adopted, relating to the requirement that require CSBG grantees and subrecipients conducting case management to document referrals to local child support offices. The 2009 CSBG Monitoring Instrument was revised to monitor compliance with the CSBG Act in regards to this issue.

FINDING 4 – The State needs to ensure that all eligible entities and CAA’s are in compliance with the income eligibility requirements for emergency services.

TDHCA Comments:

Recommendation 4.1: TDHCA does require that CSBG eligible entities document and verify that persons receiving CSBG funded emergency services are income eligible. TDHCA requires that in cases where proof of income is unavailable, a Declaration of Income Statement form be completed and maintained in the applicable client level file. The form requires that the client certify the income of all household members without documentation of income. The program officers review client eligibility documentation in the client files during on site monitoring reviews.



Department of Energy

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

RECEIVED
MAY 24 2010

ENERGY ASSISTANCE

May 11, 2010

Mr. Michael Gerber
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 the DOE Weatherization Assistance Program

Dear Mr. Gerber,

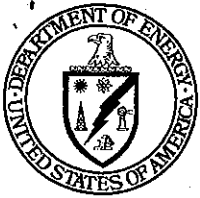
On March 8-March 12, 2010, Paul Jiacoletti, and I, Project Officers with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the DOE Weatherization Assistance Program, administered by the Texas Department of Housing and Community Affairs. Attached is a report on the results of the visit.

The monitoring assessment included a review of administrative, financial and programmatic aspects of the Texas WAP, as well as a visit to one sub grantee agency. Please find enclosed the DOE Monitoring Report, which summarizes observations and recommendations made during the monitoring visit. Please submit a response within the next 15 days indicating what follow-up actions will be taken on the observations and recommendations contained in the report. Please note that there were no findings cited during the visit.

Please contact Mr. Jiacoletti 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) 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.





Department of Energy

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rob DeSoto".

Rob DeSoto
Weatherization Branch Chief

cc: Michael DeYoung, TDHCA
Kellyn Cassell, NETL
Georgeann St. Clair, NETL
Paul Jiacoletti, DOE



May 10, 2010

Mr. Michael Gerber
Texas Department of Housing and Community Affairs
P.O. Box 13941, Capitol Station
Austin, Texas 78711-3941

Dear Mr. Gerber,

On behalf of myself and Rob DeSoto we would like to thank you for the courtesy and cooperation your staff extended to us during our March 8-12th visit to review the Department of Energy's (DOE) Weatherization Assistance Program (WAP) administered by the Texas Department of Housing and Community Affairs. In accordance with the regulations and guidelines for the American Reinvestment and Recovery Act (ARRA) grants, up to four routine monitoring visits will be conducted annually. In addition, the DOE monitoring plan results and DOE Contractors will be brought on-board to conduct Quality Assurance assessments of several weatherized units.

The purpose of this correspondence is to provide a report on our monitoring visit.

There were no major findings that resulted from our visit. The state staff and the sub grantees seem to be qualified and motivated to run a good program. Overall the Texas WAP appears to be in compliance with federal rules and program regulations. However, there are areas in which the program recently has either missed a deadline or has been operating under a rule mis-interpretation. These items should be corrected as soon as possible and are addressed in the body of this report. The report also outlines numerous areas in which the Texas WAP has significant room for improvement.

OUTLINE OF THE MONITORING VISIT

Upon our arrival on the afternoon of March 8th, introductions were made and a meeting to set time frames and gather previously requested documents was conducted. The documents requested were provided to us for review during the course of that evening. The initial meeting took place with Michael DeYoung, Director for Community Affairs and Stephen Jung, Project Manager for Monitoring. The purpose of the meeting was to discuss the proposed agenda for the visit, which included review of the on-site monitoring checklist questions and responses that were provided by TDHCA ahead of our visit. We appreciate the provision of the responses to the checklist questions as this allowed additional time to be spent on other activities, including the provision of technical assistance wherever possible. During the meeting and subsequent meetings with TDHCA staff, we discussed the performance of the sub grantee network and the expectations for production and expenditures based on the State Plan modification submitted to DOE. We also requested the availability of appropriate personnel to review their areas of responsibility within the WAP and set a schedule to meet with them. Mr. DeYoung provided

several alternatives for field visits to sub grantees within the Austin area; sub grantee agencies were selected and arrangements for travel and site visits were finalized. The decision to monitor multi-family units in San Antonio and Dilley, Texas was agreed upon with all parties meeting in San Antonio at the agency's office. The agency selected was Alamo Area Council of Governments which provided both units in progress and completed units for review.

The following day (Tuesday March 4th) began with an entrance interview to outline the purpose of our visit and introduce ourselves to the remainder of the Grantee WAP staff. Staff who attended are as follows: Michael Gerber Executive Director, TDHCA, Timothy Irvine, Deputy Executive Director, Brooke Boston, Deputy Director, Michael DeYoung, Director of Community Affairs, Stephen Jung, Project Manager for Monitoring, Cathy Collingsworth and David Cervantes, Director of Financial Administration. After reviewing and outlining the sequence of interviews to provide requested information; the rest of that day was utilized to interview existing staff in the Finance, Training and Technical Assistance Area, Monitoring, Program Operations and Administrative areas for the Grantee, review program files, ascertain operating requirements, conditions and controls and finalize information with regard to the sub-grantee network. The results of our reviews are discussed in this report.

The following day Wednesday March 5th, we spent the day in the field viewing the quality and extent of weatherization measures being provided by the AACOG. Files for the units visited in both Dilley, Texas and San Antonio were reviewed to ascertain why measures were performed (energy audits reviewed) and discussions with clients were done to assess their satisfaction with the weatherization effort provided.

The following day (Thursday March 7th) began by attending a session of the Texas Department of Housing and Community Affairs board meeting where a measure to allow de-obligation of funds from non-producing sub-grantees and re-obligation of funds to producing agencies was being reviewed. The temporary measure passed. TDHCA was pursuing this measure on a permanent basis to provide a legitimate method for their sub-grantee network to meet their weatherization goals in a timely fashion by moving funding from non-producing agencies to agencies that can help TDHCA meet their identified goals.

The remainder of the day was used to complete interviews, finalize the exit material and conduct an exit interview with staff from the Grantee's office. An exit interview was held after lunch and the results of the monitoring trip were communicated to Grantee staff. The results of that exit interview are contained in the body of this report.

COMMENTS AND RECOMMENDATIONS

I. ORGANIZATION

A great deal of time was spent reviewing the 12 new City providers and their status. The major concern with ARRA in general, is that Texas is behind in ARRA production and expenditures. The new city providers play a large role both financially and in terms of anticipated production. Many have not done any production and production continues to be delayed due to obstacles which exist at the local level prohibiting distribution of funds which is crucial for production to begin and increase.

A review was conducted of each Sub Grantee City individually. We expressed our concerns with the larger cities and their lack of significant production numbers and that several had not done any production to date. Concerns over the following sub grantee cities, their grant amount and planned production was expressed: Houston (\$23,571,279.00 – 2,730 units), Dallas (\$13,306,985.00 – 1,535 units), El Paso (\$8,020,066.00 – 919 units), Austin (\$5,969,774.00 – 681 units) Laredo (\$3,395,441.00 – 381 units), Brownsville (\$3,281,585.00 – 367 units), and Corpus Christi (\$3,163,472.00 – 354 units).

We are concerned whether or not Texas will be able to meet the requirements outlined In Weatherization Program Notice #5 (WPN-5) which explains that the release of the additional 50% of funds is contingent on demonstration that Texas has reached 30% of the production goals and other metrics for the program. by September 30, 2010 as noted in the Funding Opportunity Notice.

We understand the new De-obligation/Re-obligation rule may address this concern, but may have been implemented too late to have a desirable impact on performance. The intention of the rule was to induce better performance from the sub-grantee network. Previous plans and discussions with the provider network have not produced any measurable results in terms of overall production and expenditures, so it is yet to be seen how effective this activity will be.

RECOMMENDATION: #1: While we do not have any specific recommendations that are sure to solve this problem, we feel it may take a combination of a few to increase production and expenditures. These are:

- Continued and escalated pressure from TDHCA or the Governor's office to the sub grantee network to produce units or risk having their funds transferred to nearby agencies that are capable of producing additional units.

- Implement more frequent draw down of funds from ASAP to demonstrate a more accurate picture of expenditures and that production is increasing.
- Require sub grantees to be on calls by the Department of Energy to TDHCA to "send the message" to the sub grantee network that DOE is supporting TDHCA's efforts to move the funds to agencies that spend it the fastest and produce weatherized units.
- Continue to work with DOE and its' available Contractors to set up technical training on multi-family units so that the larger cities can start weatherizing these types of units on an increased basis and schedule.

II. GENERAL ADMINISTRATION AND PROGRAM MANAGEMENT

- Additional staff has been added since the last monitoring visit. The ARRA funding appears to be helping and at an effective and manageable level. However, there are still several vacancies open within TDHCA which DOE would like to see filled as quickly as possible in order to help increase the progress of ARRA implementation in Texas. We were told that a hiring fair that was to be held the first of April should assist in identifying qualified and capable personnel. DOE is adamant that the hiring process needs to be accelerated to relieve pressure on existing staff and get more technical assistance to the network of providers.

RECOMMENDATION #2: DOE would like to see an aggressive effort to fill vacant positions as soon as possible with the best qualified applicants. Continue to identify required areas where staffing is a concern and add people to those positions as well.

- During this monitoring visit, we were very impressed with the established Training Academy. The tracking mechanisms and the data base built by Brenda Hull were impressive and it appears they will provide a mechanism for evaluation of the effectiveness and quality of training coursework for the weatherization network in Texas.

RECOMMENDATION #3: Consider implementing LSW training as a course of study at the Training Academy. This is a required component of the WAP and an area that the last monitoring report cited as a weakness.

III. FINANCIAL MANAGEMENT AND ADMINISTRATION

- Overall, the processes which are in place are consistent with acceptable financial oversight practices. The use of dual control processes for payment of invoices and

tracking of funds for reporting is well developed and consistent with existing GAAP principles.

- There were no findings on the last audit. The finding from the previous audit regarding segregation of duties has been addressed.
- The documents requested by NETL were acknowledged by the State of Texas and will be sent to them shortly.
- There were no findings or areas of concern (to date) expressed by NETL, however they may still provide a report on Financial Management independent of the report.
- During the course of the exit interview, concerns were expressed regarding the late submission on the last quarterly report. This is a function of two issues. The first is a sudden loss of staff and the second is the lack of planning to provide needed training to existing staff who could act as "back-up" and fill in when there is a turnover in staff.

RECOMMENDATION #4: Develop a succession/training plan which identifies and addresses contingencies for providing other staff with the training and skills necessary in the event of extended leave or loss of staff in critical job functions.

IV. TECHNICAL MANAGEMENT AND ADMINISTRATION

- Implementation of Priority lists recently approved by DOE should help increase the speed at which homes can be evaluated and prepared for weatherization.

FIELD VISITS:

File Documentation

- Overall the documentation provided in the sub grantee files appeared to be comprehensive and contained all the required documents identified by program guidelines.

Work Diagnostics/Assessments/Analysis:

- We expressed concerns to the TDHCA staff with the provision of replacement windows at a complex in San Antonio and with what appeared to be manipulation of the energy audit to justify their installation. These windows were barely cost-effective (had a Savings to Investment ratio just above 1 but less than 1.5), while other measures such as refrigerator replacements and compact fluorescent light bulbs were not provided in a 92 unit complex.

- It appears that neither an Assessment nor safety checks were conducted on water heaters
- Solar screens were installed on the north side of buildings in the Dilley, Texas units
- Energy use/savings are questionable on these units
- Monitoring by TDHCA – Project Officers may still be weak and lack the thoroughness and follow-up of house inspections as noted in a previous monitoring report. (See the monitoring report dated May 14, 2008 where the agency Corsicana was cited for shabby workmanship.

RECOMMENDATION #5: Establish a monitoring guide for monitors/inspectors which addresses critical areas of the Weatherization Program and provides consistency for agency reviewers regardless of the geographic area or agency they are monitoring or inspecting. The monitoring guide should contain a checklist which contains:

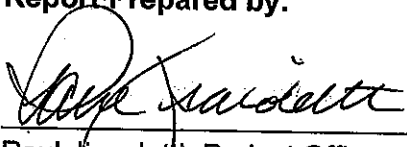
- A listing of required client notifications for hazards and Lead Safe Weatherization including distribution of the "Renovate Right" pamphlet and signed copies that the client has been notified and received all information associated with required client education efforts plus documentation of the following:
- Identification that an approved priority list was used or energy audit was performed and the results accurately identify the weatherization measures required based on correct audit input and the savings to investment ratio
- Pre and post blower door results and identified air sealing measures performed, if required
- Insulation measures which were identified and performed, amounts of insulation, R rating, location, insulation method (dense pack, blown cellulose, batts, foam, etc.) Also, it is recommended that an insulation certificate with the number of bags, type of insulation used and testing standards listed which meet Appendix A of 10 CFR 440, be left as a record to document the measures undertaken and the date it was done.
- Any base load measures which were done, including compact fluorescent lighting, refrigerator replacement, programmable thermostats, etc.
- Combustion testing of any kind and identified hazards for carbon monoxide. Replacement or repair of furnaces, water heaters, stoves, etc.
- Health and Safety Measures; Client notifications, installation of carbon monoxide detectors, etc.

- Assurances based on the audit that replacement doors or windows were required by audit results and that no undue enhancement has taken place as a result of replacement of doors and windows for the home. (i.e. windows were not replaced because they were cracked; panes can be replaced if broken or missing, etc.)
- Identification of any weather-stripping, door sweeps, caulking measures which have been done based on identification in the audit/assessment.
- Quality Assurance that the installation of Weatherization measures was done in a workmanlike manner, correctly and completely.
- The monitoring guide should verify that all weatherization measures identified during the assessment process were performed, address discrepancies and provide documentation of unsatisfactory performance by Weatherization personnel. This guide should be the first step in identifying areas for improvement, including training and technical assistance and oversight of complacency in the program. A category should be included for follow-up, return visits, etc to ascertain that corrections have been made and are satisfactory. If not, the monitoring guide is the first step in documenting remedial measures which may lead to de-obligation of funds for the contracting agency.

V. TRAINING AND TECHNICAL ASSISTANCE

It is satisfying to see that Certification is being required for pre-inspectors (energy auditors) and inspectors and that it is being monitored by the State of Texas.

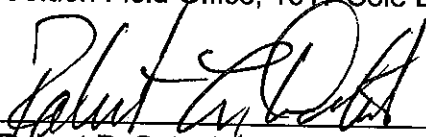
Report Prepared by:



Paul Jiacoletti, Project Officer,
Weatherization Assistance Program – U.S. Department of Energy
Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

5/11/2010

Date



Robert DeSoto, Branch Chief,
Weatherization Assistance Program, U.S. Department of Energy
Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

5/13/10

Date



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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June 7, 2010

Mr. Rob DeSoto
Weatherization Branch Chief
United States Department of Energy
1617 Cole Boulevard
Golden, Colorado 80401-3393

Re: DOE On-site Monitoring Report of the DOE Weatherization Assistance Program

Dear Mr. DeSoto:

The Texas Department of Housing and Community Affairs (the Department) received the Monitoring Report of the Department's DOE Weatherization Assistance Program on May 24, 2010 and provides the following responses to the report. We wish to thank the Golden Field office for your continued support of our Program.

I. Organization

RECOMMENDATION #1: Press subrecipient network to increase production to ensure that TDHCA meets the requirements outlined in WPN-5.

The Department is appreciative and understanding of your concerns regarding the ability of our subrecipient cities to meet the requirements of the ARRA WAP. We continue to communicate the importance of program performance to all of our subrecipients, and we are starting to see results, with last week alone contributing more than 1,000 units.

- The Department continues with weekly calls to each subrecipient WAP manager to identify areas of concern, training needs, and impediments to production at the subrecipient level.
- The Department is continuing the process of biweekly phone calls from TDHCA Executive Director Michael Gerber with the subrecipient network Executive Directors in order to press for increased production and identify needs/concerns across the network.
- The Department has started communicating the performance of each subrecipient to their respective elected officials on a monthly basis, apprising the officials of our deobligation policy and encouraging them to contact their local agencies. An example of one of the letters sent by a Legislative Subcommittee is attached as Exhibit A. While production is not yet where we need it to be, we have seen unit production from all of our subrecipients. Our deobligation policy is in effect, and

the subrecipients are acutely aware of our intention to remove their funding as necessary.

- Our subrecipient network has indicated that the ability to request funds on a twice-monthly basis is of interest to them, and we have started to assess ways to allow our subrecipients to do this.
- A 2-day multifamily course based on the DOE Texas training has been incorporated into the Training Academy and the first courses begin July 2010. The Department will continue to seek training from DOE and its Contractors regarding all identified training needs.

II. General Administration and Program Management

RECOMMENDATION #2: Make an aggressive effort to fill vacant positions as soon as possible with the best-qualified applicants. Continue to identify required areas where staffing is a concern and add people to those position as well.

The Department continues efforts to locate staff to fill vacant positions in the Energy Assistance Section. On April 23, 2010 we held a second job fair, and we are reposting all open positions to solicit more applicants.

RECOMMENDATION #3: Consider implementing LSW training as a course of study at the Training Academy.

A one-day Lead Safe Worker course based on DOE-approved curriculum (WPN 08-6) has been incorporated into the Training Academy and the first courses begin July 2010.

III. Financial Management and Administration

RECOMMENDATION #4: Develop a succession/training plan which identifies and addresses contingencies for providing other staff with the training and skills necessary in the event of extended leave or loss of staff in critical job functions.

The Department is appreciative and understanding of your concerns regarding succession training for our staff. We have hired additional staff to fill critical positions, particularly a Senior Planner, and are cross-training other staff to perform data collection and reporting duties. As part of our planning, we are updating Standard Operating Procedures to appropriately describe our critical job functions, we are assessing our staff structure to more clearly delineate work and training needs and a clear training plan will be created for new and existing employees.

IV. Technical Management and Administration

RECOMMENDATION #5: Establish a monitoring guide for monitors/inspectors which addresses critical areas of the Weatherization Program and provides consistency for agency reviewers regardless of the geographic area or agency they are monitoring or inspecting.

To provide consistency and ensure that monitors/inspectors address critical areas of the WAP, the Department has instituted the use of the Technical Field Rating Form, attached as Exhibit B. Further, the WAP Monitoring Instrument, attached as Exhibit C, has been revised to include review of these critical areas. The Department has addressed

these issues through use of the Technical Field Rating Form, and in the following sections of the WAP Monitoring Report:


- Review of client education and LSW notification:: WAP Monitoring Instrument, Pages 18-20, A. Onsite Inspections
- Review of Energy Audit/ Priority List use and results: WAP Monitoring Instrument, Page 23, Section 9, Administrative, B: Energy Audits
- Review of Blower door use and air sealing measures: WAP Monitoring Instrument, Page 18, A. Onsite Inspections and Blower Door Data Form
- Review of Insulation measures: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections and Attic Insulation Tag installed in Attics
- Review of Base load measures: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Review of Combustion testing and appliance repair/replacement: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Review of Health and Safety Measures: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Review of replacement doors and windows: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Review of weather-stripping, door sweeps, caulking: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Review of quality assurance: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections
- Verification of measures performed, return visits, etc: WAP Monitoring Instrument, Pages 20-21, A. Onsite Inspections and Section 12 Summary

V. Training and Technical Assistance

No Recommendation.

We appreciate the assistance that the Golden Field Office has provided to the Department. If you have any questions about this response please call me at (512) 475- 2125.

Sincerely,

 For:
Michael De Young
Director
Community Affairs Division

Texas Weatherization Assistance Program
 Technical Field Rating Sheet

March 2010

Program Year _____ Date _____ House # _____

\$ _____

Dwelling Type

Job # _____
 Name: _____
 Address _____

- Single Family
 Mobile Home
 Multi Family

Assessor _____
 Contractor/Crew _____
 Final Inspector _____

_____ Funding Source _____

Assessment Improvement needed Acceptable Unacceptable Call Back required
 Final Inspection Improvement needed Acceptable Unacceptable Call Back required

Health & Safety

Smoke Detector – CO Detector- LSW – Gas Stoves-----

Comments:

Assessment	Work	Final Inspection

Diagnostics – (Blower Door/Air Sealing)

Pre Weather @ 50Pa _____
 Intermediate @ 50Pa _____
 Post Weather @ 50Pa _____
 Could Not Perform _____

Comments:

Assessment	Work	Final Inspection

Target _____
 BTL _____
 Stories _____

Attics Unfinished – Finished Kneewall -----

Insulation – Vents (High-Low) – Adequate Ventilation-- Hatch
 Boxed – Barriers--Insulation Cert. Posted – Knob and Tube

Comments:

Assessment	Work	Final Inspection

Walls

Insulation -- Knob and Tube -----

Comments:

Assessment	Work	Final Inspection

Foundation - (Floor)

Insulation –Crawl-Vapor Barrier-Slab--Repairs-Crawl-Scuttle Door
 Adequate Ventilation

Comments:

Assessment	Work	Final Inspection

Windows

Pane/Frame Caulk – Glass Replacement-Glazing-Adjust Sash Lock-
 Glass Replacement –Replacement-Storm Windows

Comments:

Assessment	Work	Final Inspection

Windows-Mobile Home

Drip Cap- Insider Storm-Replacement -----

Comments:

Assessment	Work	Final Inspection

Doors
 Weatherstrip-Sweep-Pane/Frame Caulk-Replacement-----
 Lock-Set-Hinges-Adjustment Striker Plate-
 Comments:

Assessment	Work	Final Inspection

Furnace
 Clean & Tune – Replacement-Repair- Thermostat -----
 Gas Shutoff-LP Gas Line-(Black or Copper)-
 Comments:

Assessment	Work	Final Inspection

Water Heater
 Gas Shutoff-Replacement-Discharge Pipe-----
 Revent W/H-Elec.
 Comments:

Assessment	Work	Final Inspection

Baseload Measures
 CFL's- Refrigerators- Water Savers-----
 Comments:

Assessment	Work	Final Inspection

Air Conditioning
 Duct System- Filters- Return Air
 Comments:

Assessment	Work	Final Inspection

Energy Repair
 Roof -----
 Electrical-----
 Repair -----
 Other-----
 Comments:

Assessment	Work	Final Inspection

Audit	Priority List

Program Officer: _____

Date: _____

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
ENERGY ASSISTANCE SECTION
WEATHERIZATION ASSISTANCE PROGRAM
MONITORING INSTRUMENT PROGRAM YEAR 2009**

Funding Source: _____

Funding Plan: _____

Investor Owned Utility Program

Investor Owned Utility Contracts

U S Department of Health & Human Services

Low Income Home Energy Assistance Act of 1981

U S Department of Energy

Title VI, Energy Conservation and Production Act
Petroleum Violation Escrow Funds

U S Department of Energy

American Recovery and Reinvestment Act

Monitor(s): _____

Subrecipient: _____

Executive Director: _____

Board Chairperson: _____

WAP Coordinator: _____

Fiscal Officer: _____

Date of monitoring review: _____

Person notified: _____

DOE Contract number: _____

Contract period: 04/01/09 - 03/31/10

LIHEAP Contract number: _____

Contract period: 04/01/09 - 03/31/10

IOU Contract number: _____

Contract period: _____

IOU Contract number: _____

Contract period: _____

ARRA Contract Number: _____

Contract period: 09/01/09 – 08/31/11

ARRA Contract Number: _____

Contract period: 09/01/09 – 08/31/11

Weatherization Assistance Program

WAP Monitoring Instrument

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SECTION 1 - FINANCIAL REVIEW

	1. What is the Subrecipient’s Fiscal Year? <i>Discuss with Fiscal Officer.</i>	Fiscal Year:
	2. What software and/or system does the Subrecipient use to perform the Agency’s accounting functions? <i>Discuss with Fiscal Officer.</i>	System/Software:
	3. Is the system manual, automated, or a combination?	

Reference	Question	Y	N	NA	Comments
	4. Does the Subrecipient prepare monthly financial statements? If so, which of the following: a) Balance Sheet b) Income Statement c) Statement of Cash Flows d) Statement of Revenue and Expenditures – Budget to Actual e) Other Reports				List Reports:
OMB Cir. A-110, Subpart C_.21 & OMB Cir. A-102 & A-87(if applicable)	5. Are MER financial figures reconciled from the general ledger or accounting work papers? <i>Compare MFFPR for two months provided by Subrecipient with copy of MFFPR brought by Program Officer. Also, review General Ledger and working papers and/or reports used to compile figures for the MFFPR in review</i>				Months reviewed:
DOE, LIHEAP & DOE ARRA Contracts Attachment A	6. Is the Current Administrative expenditure at or below the allowable maximum for the DOE, LIHEAP and ARRA contracts? (5.0% for DOE and 7.22% for LIHEAP and 5.0% ARRA)				
T.A.C. § 5.528	7. Is the current Health and Safety expenditure at or below the allowable maximum for the DOE, LIHEAP and ARRA contracts? (20% for DOE, LIHEAP and ARRA)				
DOE, LIHEAP & DOE ARRA Contracts Attachment A	8. Is the current average cost per unit at or below the allowable maximum for the DOE and LIHEAP contracts? (\$6,500 for DOE, \$4,000 for LIHEAP & \$6,500 for ARRA)				
T.A.C. § 5.603	9. If no, did the agency request and receive a waiver to exceed the cost per unit for any individual weatherized unit?				

Reference	Question	Y	N	NA	Comments
Investor Owned Utilities					
IOU Contract Attachment A	10. Is the current Administrative expenditure at or below the allowable maximum for the IOU contracts?				
IOU Contract Attachment A	11. Are all IOU client files reviewed eligible IOU utility customers?				
IOU Contract Attachment A	12. Were IOU funds used to pay for IOU eligible electric measures? (excluding gas appliances)				
OMB Cir. A-110, Att.C_.21 (b)(2)(3) (4)&OMB Cir.A-102(2)(b) 1 T.A.C. § 5.141	13. Review at a minimum, two months of expenditures, cash disbursement journals and support documentation.				Months reviewed:
Reference noted above	14. Are the expenditures allowable? <i>Review all expenditures for each of the months referenced in question #13 above. Include a copy of the General Ledger.</i>				
Reference noted above	15. Is the support documentation adequate? <i>For the random sample of expenditures selected, review the support documentation such as actual vouchers, receipts, proper authorization, etc.</i>				
Reference noted above	16. ____% of expenditures vs. ____% of contract period expired. Is this an acceptable expenditure rate? <i>Review in-house documentation. Take into account units in progress.</i>				
Reference noted above	17. Can General Ledger postings be traced to the original books of entry? <i>Cash receipts, Cash Disbursement, Purchase Request, and General Journal. Make sure that amounts tie into the General Ledger. Watch for unusual or large entries.</i>				
Reference noted above	18. How many Bank accounts and/or open checking accounts does the Subrecipient have? <i>Discuss with Fiscal Officer which of the accounts WAP funds are maintained in or pass through.</i>				
Reference noted above	19. Are bank statements reconciled monthly to the General Ledger? Are there any differences? If so, see Question # 20 If not, skip next Question. <i>Review reconciliation statement including support documentation for two most recent months.</i>				Months reviewed:
Reference noted above	20. Are the differences resolved and approved by a designated person monthly? <i>Review reconciliation statement including support documentation for two most recent months.</i>				Date of Reconciliation: Name and Title:
Reference noted above	21. Does the reconciled cash agree with the General Ledger? <i>Review bank statements and, bank reconciliations</i>				

Reference	Question	Y	N	NA	Comments
OMB Cir. A-110, Subpart.C_.21 (b)(2)(3) (4)&OMB Cir.A-102(2)(b) 1 T.A.C. § 5.141	<p>22. Has Subrecipient assured there are no checks outstanding for more than 90 days?</p> <p><i>Ask for list of checks still outstanding. If there are checks outstanding for more than 90 days, were any of the checks paid with WAP funds? If yes, please list the outstanding check # and amounts.</i></p>				
Reference noted above	<p>23. Who signs checks? How many signatures are required?</p> <p>Do names on bank signature cards match signatures on checks?</p> <p><i>Review bank signature cards.</i></p>				
Reference noted above	<p>24. Are the Subrecipient's Payables outstanding for more than: 30 Days 60 Days 90 Days</p> <p>Is this an acceptable period of time?, and what are the types of Payables?</p> <p><i>Discuss with Fiscal Officer and Review the Subrecipient's Aged Payable or Outstanding Payable Report and Program guidelines /regulations.</i></p>				<p>Number of days outstanding:</p> <p>Types of Payables:</p>
Reference noted above	<p>25. Are the Subrecipient's Receivables outstanding for more than: 30 Days 60 Days 90 Days</p> <p>Is this an acceptable period of time? And what are the types of Receivables?</p> <p><i>Discuss with Fiscal Officer and Review the Subrecipient's Aged Receivables or Outstanding Receivable Report and Program guidelines /regulations.</i></p>				<p>Number of days outstanding:</p> <p>Types of Receivables:</p>
Reference noted above	<p>26. Is there a separation of duties to ensure effective control over preparation, authorization, and distribution of checks?</p> <p><i>Ask for a copy of the most recent financial policies and procedures. A). Review the procedure of check processing within the agency's financial procedures.) Ask Fiscal Officer to explain the procedure followed in processing checks to verify compliance with agency's financial procedures and the OMB circulars.</i></p>				
OMB Cir.A-110, SubpC_.22 (b) &OMB Cir.A-102(2)(c)	<p>27. Has Subrecipient requested more than a thirty-day supply of funds, unless otherwise justified?</p> <p><i>Review the financial report MFFPR and review in-house documentation.</i></p>				

Reference	Question	Y	N	NA	Comments
OMB Cir. A-110, Subpart. C_.22 (l) & OMB Cir. A-102(2)(e)	<p>28. If TDHCA funds are in an interest-bearing account, is interest earned allocated back to the program?</p> <p><i>Methodology: Receive verification from Fiscal Officer to determine whether interest is generated. Review General Ledger and Chart of Accounts for a Program Income Account. If yes, document explanation given by Fiscal Officer and ask for proof by documentation.</i></p>				
OMB Cir. A-122, Attach B, 16	<p>29. Has Subrecipient used TDHCA funds to pay late fees to IRS or other penalties?</p> <p><i>Ask Fiscal Officer and review cash disbursements journal for current program year.</i></p>				
OMB Cir. A-110, Att. C_.21(b) (6) Cir. A-87 Att. B	<p>30. Are written procedures in place to ensure that items of cost are equitably charged and allowable?</p> <p><i>Ask for Cost Allocation Plan, review rent, utilities, etc, any other joint costs.</i></p>				
Same as above & OMB Cir A-122 Att. A.	<p>31. Does the Subrecipient charge expenditures based on the current approved Cost Allocation Plan, or do they utilize an approved Indirect Cost Rate?</p> <p><i>Review Cost Allocation Plan, and/or review and compare approved Indirect Cost Rate and approval letter.</i></p>				
OMB Cir. A-110, Subpart.C_.21 (b)(2)(3) (4)&OMB Cir.A-102(2)(b) 1 T.A.C. § 5.141	<p>32. Review the Subrecipient’s most recently submitted IRS form 990. (if applicable) Are there any notable concerns, conditions, and/or issues?</p> <p><i>Ask CFO for a copy of the 990</i></p>				
Reference noted above	<p>33. Does Subrecipient pay TWC Taxes (state unemployment), State Workers’ Compensation, insurance companies and payroll taxes when they are due?</p> <p><i>Ask for proof of payment for latest quarter.</i></p>				
Reference noted above	<p>34. During the last three years has the IRS or any other organization placed any liens on the agency for delinquent payments? Has the subrecipient made any agreements or payment plans with the IRS due to delinquent payroll tax payments?</p> <p><i>Discuss with CFO and review doc</i></p>				
OMB Cir. A-110 Subpar C_.21(b) & A-102 & A-87 (if applicable)	<p>35. Do Journal Entries, Adjusting Entries, and/or Reversing Entries have proper support documentation, explanation, and justification? Are they reviewed, approved and initialed by a designated person?</p> <p><i>Discuss with Fiscal Officer and review support documentation for journal entries affecting WAP.</i></p>				Name and Title:

SECTION 3 - GENERAL LIABILITY and POLLUTION OCCURENCE INSURANCE

Reference	Question	Y	N	NA	Comments
ARRA Contract Sect. 22. DOE & LIHEAP Contracts Sect. 18	1. Does the Subrecipient have General Liability Insurance coverage?				
Contracts Section 18	2. Does the policy cover bodily injury & property damage?				
	3. Does the liability policy provide for lead based paint or related work?				
	4. Does the Subrecipient have Pollution Occurrence Insurance coverage?				
10 CFR 600 121.6	5. If the policy covers more than WAP Insurance, is the cost allocated to WAP fair & reasonable? If no, explain:				
ARRA Contract Sect. 22. DOE & LIHEAP Contracts Sect. 18	6. Has the Agency exceeded the insurance Budget Line Item? If yes, did the Agency charge the additional cost to Administration? Cost to WAP: \$ _____ Cost of policy: \$ _____				

SECTION 4 - PROPERTY MANAGMENT

WAP materials purchased in whole or in part with WAP funds or used in the WAP for which WAP pays at least a share of the expenses must be reviewed. Review inventory sheet provided to TDHCA by Fund Source.

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 21	1. Is the space adequately secured?				
DOE & LIHEAP Contracts Section 17	2. Does the agency have an inventory control system that makes it possible to track materials used on an individual home back to the point of purchase?				
	3. Is a physical inventory conducted at least once a year? a. How often is a physical inventory taken? _____ b. Date of the last physical inventory: _____				
	4. If discrepancies exist, are they reconciled?				
	5. Are inventory duties adequate to maintain a good check & balance system?				
10 CFR 600.232	6. Is access to inventory limited to designated personnel to safeguard against loss, theft, or damage of property?				

A. Inventory Obtain the following information:

Responsibility	Name/Position
Signs purchase order	
Receives shipments	
Maintains records	
Takes physical Inventory	
Reconciles records	

B. Vehicles

WAP materials purchased in whole or in part with WAP funds or used in the WAP for which WAP pays at least a share of the expenses must be reviewed. LIST ALL VEHICLES BY FUND SOURCE					
Reference	Question	Y	N	NA	Comments
10 CFR 440 18.6	1. Within the last year, has the subrecipient purchased a new vehicle using WAP funds?				
WPN 09-1B	2. WAP vehicles purchased in whole or in part with WAP funds or used in the WAP for which WAP pays at least a share of the expenses must be reviewed.				
Contract Section 18	3. If there are leased vehicles, is there a written lease agreement? If yes, state terms and amounts: _____				
OMB A 122	4. Does agency maintain liability insurance coverage for WAP vehicles?				
OMB A 123 Attach B-5.	5. Does agency maintain a mileage/trip chart?				
10 CFR 600 § 232	6. Are all vehicles maintained on a regular maintenance schedule?				
WPN 09-1B	7. Are non-serviceable vehicles disposed of in accordance with DOE regulations?				
	8. Are the WAP vehicles used by other Federal Programs? If yes, do the other programs pay the appropriate cost according to usage?				

C. Equipment

Reference	Question	Y	N	NA	Comments
WAP equipment purchased in whole or in part with WAP funds or used in the WAP for which WAP pays at least a share of the expenses must be reviewed.					
Contract Section 17	1. Did the agency receive prior approval from TDHCA for all purchased equipment with a unit cost of \$5,000 or more?				
10 CFR 600 134	2. Is inventory maintained on all equipment?				
ARRA Contract Section 21 DOE & LIHEAP Contracts Sect. 17	3. Is a physical inventory taken at least once a year?				
10 CFR 600 134 and 232	4. Are any differences in the inventory resolved?				
	5. Is all the equipment secured?				
	6. Is access to equipment limited to designated personnel?				
	7. Is equipment maintained in good working order?				
ARRA Contract Section 21 DOE & LIHEAP Contracts Sect. 17	8. Is non-serviceable equipment disposed of in accordance with Department regulations?				
DOE, LIHEAP & ARRA Contracts Section 11	9. Does the agency provide an annual inventory to the Department of equipment (with a unit cost of \$5000 or more) and vehicles (See inventory reported to TDHCA).				

SECTION 5 - PROCUREMENT

10 T.A.C. § 5.10	<p>Procurement Procedures Available: Circle those that apply</p> <ul style="list-style-type: none"> a. Small purchase; b. Sealed bid; c. Competitive negotiations; d. Non-competitive negotiations; e. Alternative procedures
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Reference	Question	Y	N	NA	Comments
10 T.A.C. § 5.10	<p>1. Which method used for labor; materials; vehicles; equipment; office supplies; other?</p> <p><i>Review all procurement documentation for compliance with 10 T.A.C. §5.10.</i></p>				
10 T.A.C. § 5.10	<p>2. Has subrecipient obtained advanced written approval from the Department for the purchase of any property with a unit acquisition cost of \$5,000 or more?</p> <p><i>Review MFFPR's for any cumulative expenditures under the Equipment line item. Also review a list provided by the Contractor of all equipment purchases greater than \$5,000. Review procurement process followed for items purchased with a unit cost of \$5,000 or greater.</i></p>				
	<p>A. Small purchase (Answer this section only if this method was used.)</p>				
10 T.A.C. § 5.10	<p>3. Did the Subrecipient obtain price quotes from at least 3 different vendors?</p> <p><i>Review documents on small purchase procedures.</i></p>				
10 T.A.C. § 5.10	<p>4. Did the Subrecipient establish a written selection criteria?</p> <p><i>Review procurement documents.</i></p>				
10 T.A.C. § 5.10	<p>5. Did the Subrecipient select the vendor who best met the selection criteria & whose price was the lowest?</p> <p><i>Review procurement documents.</i></p>				
10 T.A.C. § 5.10	<p>6. Was the procedure well documented?</p> <p><i>Review procurement documents.</i></p>				
10 T.A.C. § 5.10	<p>7. Based upon the analysis of the procurement effort, did the Subrecipient select the correct vendor(s)?</p> <p><i>Review procurement documents.</i></p>				

Reference	Question	Y	N	NA	Comments
B. Competitive Sealed bid, Competitive Negotiations, Non- competitive negotiations, or Alternative procedure					
	1. State Procurement Method used.				
10 T.A.C. § 5.10	2. For methods other than the Competitive Sealed Bid, did the agency obtain a written consent letter from TDHCA or notify the Department of the method used for the current year?				
10 T.A.C. § 5.10	3. Were the advertising requirements met? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	4. Was the correct time allotted to respond? <i>Review procurement documents.</i>				
	5. Were the following selection criteria used? a. Integrity b. Financial resources c. Record of past performance d. Technical resources e. Price <i>Review procurement documents.</i>				
	6. Were points attached to each criterion? <i>Review procurement documents.</i>				
	7. Was price given the greatest number of points, minimum 50% of points available? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	8. Was the responsible bidder whose price was lowest awarded the bid? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	9. Were the bids publicly opened? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	10. Did the bid package allow for free & open competition? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	11. Was all necessary information provided to bidders? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	12. Was the procedure well documented? <i>Review procurement documents.</i>				
10 T.A.C. § 5.10	13. Based upon the analysis of the procurement effort, did the subrecipient select the correct vendor(s)? <i>Review procurement documents.</i>				

Reference	Question	Y	N	NA	Comments
10 T.A.C. § 5.10	14. Did Subrecipient conduct some form of cost or price analysis for any procurement procedure conducted after March 19, 2002? <i>Review procurement documents.</i>				
ARRA Contract Section 37 DOE & LIHEAP Contracts Sect. 30	15. Did the Subrecipient verify that all of their current Contractors do not appear on any Federal Debarment list? <i>Review debarred list.</i>				
ARRA Contract Section 12	16. Has the Subrecipient complied with the Buy American Provisions as applied to Energy Efficiency and renewable energy projects funded by the American Recovery and Reinvestment Act of 2009 and administered by DOE?				

A. Procurement Reporting Requirements

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 33	1. Has Subrecipient posted all their Contract-related job opportunities on the Workintexas.com website?				
ARRA Contract Section 19	2. Did the Subrecipient provide the Department with an electronic version of any notice of procurement opportunity to post on the Department’s website?				

A. Contract

Reference	Question	Y	N	NA	Comments
10 T.A.C. § 5.10	1. If other than small purchase method was used, did the subrecipient enter into a written contract with the subcontractor(s)? <i>Review contract.</i>				
10 T.A.C. § 5.10	2. Does the contract contain the following provisions?				
10 T.A.C. § 5.10	a. Administrative, contractual or legal remedies for breach of contract				
10 T.A.C. § 5.10	b. Early termination				
OMB A-110 Appendix A	c. For contracts in excess of \$10,000, compliance with Executive Order 11375 Amending Executive Order 11245 "Equal Employment Opportunity"				
OMB A-110 Appendix A	d. Copeland "anti-kickback" Act"				
10 T.A.C. § 5.10	e. Hold harmless				
10 T.A.C. § 5.10	f. Conflict of interest & nepotism				
DOE, LIHEAP Contr. Sec. 26 ARRA Contr. Sect. 30	g. Prohibit political activity				
10 T.A.C. § 5.10	h. Prevent fraud and abuse				
10 T.A.C. § 5.10	i. Amend contract				
10 T.A.C. § 5.10	j. Legal authority to sign contract				
10 T.A.C. § 5.10	k. Access to records				
10 T.A.C. § 5.10	l. Three year record retention				
10 T.A.C. § 5.10	m. For contracts in excess of \$100,000, compliance with Clean Air and Clean Water Acts				
10 T.A.C. § 5.10	n. Non-discrimination provision				
OMB A-110 Appendix A	o. Reporting and patent rights under any contract involving research, developmental, experimental, or demonstration work, with respect to any discovery or invention which arises or is developed in the course of, or under such contract.				

SECTION 6 - AUDIT

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 20 DOE & LIHEAP Contracts Sect. 16	1. Have funds from this contract been allocated to pay for audit? <i>Review fiscal records.</i>				
Same reference as above	2. Has this expense been charged to Financial Audit for the DOE WAP contract and/or administration for LIHEAP contract? <i>Review fiscal records.</i>				
Same reference as above	3. Have the audit findings been discussed with the subrecipient staff? <i>Discuss finding and note in monitoring report.</i>				
Same reference as above	4. Has the audit certification letter, if required, been submitted to the Portfolio Mgmt. and Compliance Division? <i>Check with PMC.</i>				
Same reference as above	5. Has the Subrecipient submitted the most current audit report to TDHCA? <i>Contact PMC</i>				
Same reference as above	If no: a. When was the audit due? b. Are there any unresolved audit findings? <i>Contact PMC</i>				
Same reference as above	If yes, what is status? <i>Contact PMC</i>				
OMB A-133 Subpart C .320 (d)	6. Has the Subrecipient submitted all pertinent documents to the Federal Clearinghouse ie. Data collection form and copy of reporting package. <i>Methodology: Review the Federal Clearinghouse (FAC) single audit submission database.</i>				
DOE & LIHEAP Contracts Sect. 16	7. Has the Subrecipient used a competitive solicitation process in the last four (4) years to procure audit services? <i>Review most recent audit package including type of solicitation of bids, bids from audit firms which responded, scoring criteria, and justification used to choose the firm.</i>				

SECTION 7 - PERSONNEL POLICIES and PRACTICES

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 29 DOE & LIHEAP Contracts Sect. 23	1. Is there a provision in the personnel policies to prohibit conflict of interest and nepotism? <i>Obtain a copy of the personnel policies if revised. Review policies.</i>				
ARRA Contract Section 32 DOE & LIHEAP Contracts Sect. 27	2. Is there a provision to provide equal opportunity and prohibit discrimination on the basis of : race__, color__, religion__, sex__, national origin__, age __, handicap__, political affiliation or belief__? <i>Obtain a copy of the personnel policies if revised. Review policies.</i>				
ARRA Contract Section 30 DOE & LIHEAP Contracts Sect. 26	3. Is there a provision to prohibit political activity and lobbying? <i>Obtain a copy of the personnel policies if revised. Review policies.</i>				
ARRA Contract Section 26 DOE & LIHEAP Contracts Sect. 22	4. Has Subrecipient included a section in personnel policies insuring that any person reporting a violation by the Subrecipient shall not be discriminated against? <i>Obtain a copy of the personnel policies if revised. Review policies.</i>				
ARRA Contract Section 26 DOE & LIHEAP Contracts Sect. 22	5. Is there a provision to establish, maintain, and utilize internal control systems and procedures sufficient to prevent, detect, and correct incidents of waste, fraud and abuse? <i>Obtain a copy of the personnel policies if revised. Review policies.</i>				
ARRA Contract Section 31	6. Has the agency posted notice of the rights and remedies afforded whistleblowers under Section 1553 of the American Recovery and Reinvestment Act of 2009?				

SECTION 8 - PERFORMANCE REVIEW

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 4	1. Are all of the counties in the service area served equitably? <i>See the Service Per County Form and review Part VI of the most recent MER.</i>				
Same reference as above	2. Has the Subrecipient prioritized all clients? <i>Review client files and SDP.</i>				
Same reference as above	3. Have all represented racial and ethnic groups been equitably served? (If no, state reason(s)) <i>Review current census data with Performance Reports</i>				
	4. Have all WAP findings requiring corrective actions from the previous monitoring reports been satisfactorily addressed?				

WAP MONITORING INSTRUMENT

ARRA Contract Section 15	7. Has the Subrecipient submitted all 1512 reports to the Department no later than five (5) calendar days after the end of each calendar quarter? <i>Review submitted 1512 reports. Report includes an estimate of the number of jobs created and number of jobs retained by the ARRA contract(s); and the names and total compensation of the five most highly compensated officer.</i>				
ARRA Contract Section 15 (C)	8. Does the Subrecipient have proper documentation to support the information provided in the most recent 1512 report with regards to the five most highly-compensated officers? <i>Review submitted 1512 reports and all associated working papers.</i>				
ARRA Contract Section 15 (D)	9. Does the Subrecipient have proper documentation to support the information provided in the most recent 1512 report with regards to vendor information, DUNS number and amount paid to vendor(s)? <i>Review submitted 1512 reports and all associated working papers.</i>				
ARRA Contract Section 15 (A)	10. Does the Subrecipient have proper documentation to support the information provided in the most recent 1512 report with regards to jobs created and retained as FTE (Full-Time Equivalent)? <i>Review submitted 1512 reports and all associated working papers for Subrecipients and contractors.</i>				
WPN 10-01	11. Has the Subrecipient followed Texas Historical Commission requirement for homes to be weatherized that meet the historical evaluation criteria?				

A. Onsite Inspections

Reference	Question	Y	N	NA	Comments
10 T.A.C. § 5.530	1. Are all units' final CFM readings above the Building Tightness Limit? If no unit must be brought above the BTL?				
10 T.A.C. § 5.17	2. Were the return units from the previous year addressed as requested?				
10 T.A.C. § 5.526	3. Of the Units Inspected, were Energy Audits or the Priority List conducted on each unit?				
10 T.A.C. § 5.526	4. Were the Energy Audits completed prior to the home receiving WAP services?				
WPN 09-1B	5. The Department has an overall goal of inspecting 5% of completed units. At the time of the monitoring, what is 5% of the units completed?				
10 T.A.C. § 5.521	6. Does the agency have a written procedure for client education?				
10 T.A.C. § 5.521	7. Does the agency provide the client any educational material? If yes, what type(s)? a. oral b. written c. visual				

WAP MONITORING INSTRUMENT

WPN 09-6	8. Did the Agency provide clients who live in homes build before 1978 <i>Renovate Right – Important Lead Hazard Information for Families, Child Care Providers and Schools?</i>				
WPN 09-6 EPA RRP Final Rule	9. Starting April 22, 2010, renovations in pre-1978 housing must be conducted by certified renovation firms, using renovators with accredited training and follow the work practice requirements of the rule. Do the Subrecipients verify LSW practices? How?				
EPA RRP Final Rule	10. Does the subcontractor(s) of the Subrecipient verify that all required records are kept on-site during the renovation work? Documentation required on-site during renovation includes: <ul style="list-style-type: none"> o copies of Certified Firm and Certified Renovator(s) certifications o non-certified worker training documentation (if applicable) 				
EPA RRP Final Rule	11. Does the Subrecipient verify that all required records are maintained to document the renovation? Documentation required to maintain includes: <ul style="list-style-type: none"> o Copy of Certified Firm and Certified Renovator(s) certifications o Non-certified worker training documentation o Designation of a Certified Renovator to the job o Information on and results of use of EPA-recognized test kits provided by a Certified Renovator who acted as the representative of the Certified Firm at the job site and who conducted testing for the presence of lead-based paint on surfaces to be affected by the renovation o Lead-based paint inspection reports provided by a Certified Lead Inspector or Certified Lead Risk Assessor, if applicable o Proof of owner/occupant pre-renovation education o Any other signed and dated documents from the owner(s) and/or residents regarding conduct of the renovation and requirements in the EPA RRP Rule o All reports required from the Certified Firm and the Certified Renovator by the EPA RRP Rule 				
EPA RRP Final Rule	12. Does the Subrecipient verify that all required records are retained upon completion of the renovation work, including a signed statement from the Certified Renovator that includes the following areas? Documentation required post-renovation includes: <ul style="list-style-type: none"> o Proof of non-certified worker training o Proof of posting warning signs o Description of results from use of EPA-recognized chemical spot test kits o Description of work area containment o Description of on-site waste containment/transport o Proof of proper post-renovation work area cleaning o Records of inspections and/or risk assessments conducted by Certified Lead Inspectors or Risk Assessors, if applicable o Proof of successful cleaning verification 				

EPA RRP Final Rule	13. Does the Subrecipient verify that all non-certified workers received training applicable to all lead-safe work practices involved in the renovation process? Documentation required to maintain includes: <ul style="list-style-type: none"> o Worker's name o Description of lead safe work practices the worker is trained to perform o Completed and signed skills evaluation checklists o Date(s) of training o Name and signature of the Certified Renovator who conducted the training. 				
EPA RRP Final Rule	14. Has the Subrecipient verified that a copy of the records demonstrating compliance with the EPA RRP Rule have been distributed to the owner and/or the occupant of the renovated unit (if applicable)?				
10 T.A.C. § 5.524	15. Have Subrecipients verified that subcontractors have completed the required training?				

A. Onsite Inspections (Continued)

Reference	Question	Y	N	NA	Comments
ARRA Contract Section 13 B(F)	1. Have Health and Safety issues been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	2. Have Attics measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	3. Have Wall measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	4. Have Foundation/Floor measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	5. Have Windows measures been properly addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	6. Have Mobile Home measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	7. Have Door measures been properly addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	8. Have Furnace measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	9. Have Water Heater measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	10. Have Baseload Measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	11. Have Air Conditioning measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				
ARRA Contract Section 13 B(F)	12. Have Energy Repair measures been adequately addressed? <i>Review Technical Field Rating Sheet</i>				

****MONITORS MUST COPY BWR's OF THE HOMES INSPECTED FOR THE EA FILE****

(Monitor must compare the documentation to the 10 CFR 440 Attachments A)

**Department of Energy 10 CFR 440 Attachment A Material Specifications
10 CFR 440 Final Rule February 1, 2002**

MATERIALS	MEETS SPECIFICATIONS?			Comments
	YES	NO	NA	
Insulation Attic				
Insulation Walls				
Insulation Floor				
Replacement Windows				
Storm Windows				
Replacement Doors				
Caulking/Sealants/Glazing				
Weather-stripping				
Furnace (Electric)				
Furnace (Gas)				
Water Heaters (Electric)				
Water Heaters (Gas)				
Air Conditioning				
Evaporative Cooler				
Window Screens				
Refrigerators				

Any Materials not meeting the DOE Specifications will be disallowed

SECTION 9. ADMINISTRATIVE

A. Client Files

Reference	Question	Y	N	NA	Comments
10 TAC 6.105	1. Has the Subrecipient developed and implemented a written policy/procedure on the proper use of the Declaration of Income Statement (DIS) form? <i>Verify with Program Coordinator and obtain a copy of the DIS policy/procedure.</i>				
ARRA Contract Section 13 DOE & LIHEAP Contracts Sect. 10	2. Are client files and other applicable program documents retained for minimum of 3 years?				
10 CFR 440.18	3. Does the agency maintain compliance with 10 CFR 440.18 regarding units weatherized after September 30, 1993?				
LIHEAP Statute	4. Are referrals received from the local LIHEAP program? List attempts to obtain referrals.				
10 CFR 440.16	5. Does the agency coordinate/leverage the WAP with other available resources? If yes, list the programs/agencies.				
ARRA Contract Section 13 DOE & LIHEAP Contracts Sect. 10	6. Is the income documentation for the client files dated less than 12 months from the unit start date?				
10 CFR 600.121 (3) & 220	7. Do material amounts listed on the BWR equal the amounts listed on material invoices and/or the inventory removal sheets?				

B. Energy Audits

Reference	Question	Y	N	NA	Comments
Were the following items correctly input into the audit?					
10 CFR 440 §21	1. Vendor Rates (IOU Price)				
	2. Heating/Cooling Cost				
	3. Appliance Efficiencies				
	4. Correct R-values inputted into audit.				
	5. Audit parallels BWR				

SECTION 10 - MULTI-FAMILY REVIEW

Reference	Question	Y	N	NA	Comments
TAC §6.6 & 6.106	1. Are all WAP multifamily projects comprised of buildings with more than four units but less than 25 units?				
	2. Was written Department approval obtained for all WAP multifamily projects containing buildings of more than twenty five units, units with shared heating and/or cooling plants prior to commencing all projects?				
	3. Have all shared costs for each WAP multi family project been appropriately allocated to all affected dwelling units per building in each project?				
	4. Do all multifamily master files contain the following:				
	a. Permission to Perform an Assessment for Multifamily Project form				
	b. Landlord Financial Participation form				
	c. Landlord Agreement form				
	d. Completed Attachment B and C per building				
e. A client file for each vacant unit and each unit occupied by households who exceed the income guidelines					

SECTION 11 - DENIED FILES

Contractor: _____

Client	Application	Income Documentation	Denial Notice	Appeal?	Results of Appeal	Comments

Reference	Question	Y	N	NA	Comments
10 TAC 6.8 & 6.108	1. Do all the denied files reviewed have a written denial notice? <i>Review denial client files.</i>				
	2. Are all reasons for the denials allowable and documented? <i>Review denial client files.</i>				
	3. If there were appeals, were appeal procedures followed? <i>Review denial client files.</i>				
	4. What was the outcome of the appeal? <i>Review denial client files.</i>				

SECTION 12 - SUMMARY

AREA REVIEWED	ISSUES NOTED	COMMENTS
1. Financial Reporting		
Administrative ratio		
Health & Safety ratio		
Unit Cost		
Production level		
Submitting reports		
Final Report		
Accounting Practices		
Insurance		
2. Travel and Timesheets		
3. General Liability		
4. Property Management		
Inventory		
Vehicles		
Equipment		
5. Procurement		
Procurement		
Procurement Contract		
6. Audit		
7. Personnel Policies and Practices		
8. Performance Review		
Onsite Review		
Blower door use		
Quality of work		
Materials standards		
EPA/LSW Practices		
1512 Reporting		
Other		
9. Administration		
Client File Review		
Energy Audit		
Client Education		
10. Multifamily		
Multifamily Files		
11. Denied Files		
Denied Files		

REVIEW OF PREVIOUS YEAR MONITORING

Are there any issues that are repeated from the previous Monitoring visit? Yes ____ No ____ N/A ____

List issues that are repeat issues (if any).

PROGRAM OFFICER MUST PROVIDE ANY SUPPORTING DOCUMENTATION SUCH AS GENERAL LEDGERS, PROCUREMENT CONTRACTS, WORKSHEETS, WORKING PAPERS, AND OTHER NECESSARY DOCUMENTATION NEED TO SUPPORT A FINDING.

Monitoring completed by

Date

Monitoring completed by

Date

OFFICE Review

Peer review completed by

Date

Management review completed by

Date

Internal Audit Division
BOARD ACTION REQUEST
July 28, 2010

Action Items

Presentation and discussion of the status of prior audit issues.

Required Action

None, information item only.

Background

Audit standards require auditors to follow-up on the implementation status of their audit recommendations. Internal maintains a data base of prior audit issues to track the findings and recommendations from both internal audits and external audits.

Of the 118 current prior audit issues:

- 54 issues previously reported as “implemented” were verified and closed by internal audit. An additional 39 issues previously reported by management as “implemented” will be verified by internal audit and closed as time allows.
- 9 issues were recently been reported by management as “implemented” and are reflected on the attached list.
- 12 issues were reported as “pending” or “action delayed”. We will verify and close these issues when they are reported as “implemented.”
- 4 issues were reported as “not implemented.”

Recommendation

No action is required.

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>
10	1/7/2002 Internal Audit	Controls Over Single Family Loans; Report No.1.05 Review of controls over single family loans serviced by the Department.	Px	01/07/02

Division: Financial Administration

Section: Loan Servicing

Issue: Improve Collection of Loan Documentation Procedures

Documentation supporting loans being serviced by the Department's Loan Administration Division was generally adequate to protect the Department's financial interests. However, an audit sample of 59 loans recorded on LSAM noted the following loan documentation exceptions (e.g., missing and/or unrecorded loan documents):

- * Five occurrences of the original or certified documents (e.g., Transfer of Lien, Warranty Deeds) being on file, but no evidence of formal recording in the applicable county official property records.
- * Three instances of required original or certified copies of documents (e.g., Transfer of Lien and Mechanic Lien Contracts) not on file, although photocopies were on file.
- * One instance of a "Transfer of Lien," documented in the file by staff in 1996 as being needed, not on file.
- * One instance of a warranty deed relating to the Office of Colonia initiative contract for deed conversion program was not on file.

Reasons for the documentation exceptions include the lack of formal policies and procedures, including supervisory review procedures, designed to ensure that the necessary loan documentation is obtained for all loans being serviced by the Department. Additionally, the use of the document control checklists by program staff to ensure complete loan documentation was lacking in several respects. Of the 59 sample files reviewed, twelve instances of the document control checklists not being completed or used were noted. In two other instances, the document control checklist was not completed but it was signed off as being reviewed by a supervisor; however, in these instances, the necessary loan documents were on file.

Recommendation - To improve quality control processes over the collection of loan documentation and to ensure that documentation is in place to protect the Department's financial interests, we recommend management develop and implement written formal standard operating procedures regarding required loan documentation. Procedures should include the use of the checklist, as intended by management, and the supervisory review process to ensure compliance with prescribed procedures.

Status:

- 06/12/09 - All involved divisions are now following the approved Standard Operating Procedure for the Single Family Special Loan Portfolio.
- 12/19/08 - After review of the Standard operating procedures provided to internal audit, it was determine the audit issue was not cleared. Write-off procedures have not been developed..
- 02/17/04 - Issue reported to the Board as implemented at the Dec. 2003 meeting.
- 11/21/03 - All involved divisions are now following the approved Standard Operating Procedure for the Single Family Special Loan Portfolio.
- 09/22/03 - Loan Servicing has trained Asset Management staff on utilization of the MITAS servicing system to generate delinquency reports and loan level detail of delinquent loans. Loan Servicing continues to coordinate efforts with OCI staff to work with delinquent Single Family Special Loan Portfolio Borrowers. Draft policies have been completed and will be finalized with OCI and Single Family Production by October 3, 2003.
- 05/06/03 - Management continues to expect issue resolution by 06/01/03.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
03/28/03 -		The Asset Management staff is being trained on the loan servicing system to generate delinquency reports and loan level detail of delinquent loans. The process of developing procedures outlining methods of delinquency management and foreclosure proceedings is being coordinated with Legal and OCI staff.
01/28/03 -		Loan Servicing staff is working with staff in newly formed areas (Operations Divisions/Asset Management-Early Intervention and Real Estate Analysis/Workout), a product of the Agency-wide restructure, to identify all delinquent single family loans and formulate standard plans of action.
11/05/02 -		Loan Administration has started to draft Standard Operating Procedures for the delinquent Single Family Loans. Due to the uniqueness of the programs funded under Single Family, we will continue to meet with the originating program area for guidance.
07/22/02 -		Loan Administration has begun to prepare draft SOPs with regard to loan collections and resolutions that will fit all types of loans being serviced by the Department. This draft will be based on historical processes and industry standards. Program areas will then need to review the draft SOP to see how it might impact their applicants, borrowers, etc.
04/22/02 -		In order to develop an SOP on loan collections and resolutions for all loans serviced by the Department, a group of Directors and Managers will meet to discuss how loan delinquencies and collections should be administered. Loan Administration will provide a basic template to start from based on historical processes and industry standards.
01/07/02 -		Management will work on developing formal procedures for collection efforts, workouts, foreclosures and deed-in-lieu, real estate owned after foreclosure and write-offs. Some of these procedures will require policy directives from Executive Management as well as the opinions of other Directors affected so that the Department will be in agreement on the collection of Department debt.

<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>
11	10/5/2007 Internal Audit	Internal Audit Report on the 9% Competitive Housing Tax Credit Program - Compliance Revi The scope included consideration of the pre-application and notification processes of the ho	Px	10/07/07 1/31/2008

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Nr 06/12/09
Ix 02/23/10

Issue: The date and time the pre-application documentation is received is not consistently documented. The pre-application form and the payment receipt are date and time stamped by the Department when the application is received. However, we found that:

- 1 of the 79 pre-application files tested did not have the date and time stamp on either the pre-application or the pre-application fee receipt.
- 4 of the 79 pre-application files tested did not have the date and time stamp on the pre-applications forms, but a date was located on the fee receipt.

In addition, there were several instances where the date and time was hand-written onto the pre-application and/or fee receipt. These instances were not counted as errors in the numbers above.

Of the 19 pre-applications reviewed where an administrative deficiency was discovered by the Department during the completeness review, there were two instances in which the date the deficiency response was received from the applicant was not documented on the response itself.

All pre-applications, fee receipts, applications, and responses to administrative deficiencies should be date and time stamped with an electronic clock to document when these items were received by the Department. This will provide evidence that applicants submitted their documents within the allotted timeframe, and reduce the opportunity for employees to fraudulently back-date applications.

Status:

02/23/10 - Electronic date/time stamps were purchased and have been consistently used by staff to document the submission of documents

06/12/09 -

10/07/07 - The Multifamily Division will reinforce the importance of using the electronic date and time stamps during the pre-application intake training of all Multifamily staff.

<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>
13	10/5/2007 Internal Audit	Internal Audit Report on the 9% Competitive Housing Tax Credit Program - Compliance Revi The scope included consideration of the pre-application and notification processes of the ho	Px	10/07/07 2/29/2008
			Nr	06/12/09
			Ix	02/23/10

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Issue: We found errors in the following pre-applications; however, no deficiency was noted by the pre-application reviewers. One pre-application was missing the second contact fax number, but the review item on the review sheet was checked indicating all of the required information was located in that section of the pre-application.

In addition, we found instances where the pre-application completeness review sheets were not completed correctly:

- 2 of the 79 pre-application completeness review sheets tested did not document review of the pre-application data form. This form is a printout of the information contained in the Department's database, and is reviewed for accuracy. These forms are marked when errors are discovered, and are then submitted for database correction. However, the forms are not consistently retained to document the changes made to the database.
- 2 of the 79 pre-application completeness review sheets tested did not have the certification of notification section completed by the first reviewer, however no deficiency was documented.

The Department should complete the pre-application review sheets correctly and ensure any deficiencies or blanks are explained and documented. In addition, the Multifamily Finance Production Division should develop a procedure to include all pre-application data forms in the application files. This will ensure documentation exists for any changes made to the Department's database from the time of initial data entry to the time the tax credits are awarded.

Status:

- 02/23/10 - Thorough training is conducted prior to staff reviewing applications. The notification date has been added to the review sheet and additional fields have been added to the database to track status.
- 06/12/09 -
- 10/07/07 - The audit recommendation will be accepted and implemented. The Multifamily Division currently conducts training on the review sheets prior to the beginning of the cycle. This training, for the 2008 Cycle, will instruct and clarify with staff how to complete the form correctly and reinforce the importance of filling out the pre-application review sheet correctly. Additionally, the Multifamily Director will reinforce to supervisors that a thorough review of these review sheets be performed. A space for the notification date will be added to the review sheet and date form so staff will have to write out the date. The Multifamily Division will also keep all the data forms from each application file, even after changes have been made to the database.

<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>
15	10/5/2007 Internal Audit	Internal Audit Report on the 9% Competitive Housing Tax Credit Program - Compliance Revi The scope included consideration of the pre-application and notification processes of the ho	Px	10/07/08
			Nr	06/12/09
			Ix	02/23/10

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Issue: There were 22 applications for which the Department received opposition to the development and all 22 applicants were notified by the Department of the opposition to their development; however, the documentation supporting these notifications was not consistently retained. In 6 of the 22 files, the Department could not find a copy of the e-mail notification sent to the applicant. In order to provide this documentation, the Department contacted the applicants and asked them to send the Department a copy of the email notification originally sent to them. Two of the 6 missing e-mails received from these applicants included sufficient information to support the Department's notifying the applicant as required.

The Multifamily Finance Production Division should develop a process that documents compliance with notification of opposition rules of the LIHTC program. This will ensure the Department can refute any challenges by developers, public officials, or members of the general public that a development did not meet all of the requirements of the program prior to being awarded tax credits.

Status:

02/23/10 - Electronic copies of all notices are filed.

06/12/09 -

10/07/08 - The audit recommendation will be implemented. Multifamily staff will begin keeping hardcopies of the letters and emails sent until another system of notification is created.

<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>
27	12/19/2007 Deloitte and Tou	Report to Management- year ending August 31, 2007 Annual independent audit of the Department's general purpose financial statements	Px	12/19/07

Division: Information Systems

Section: Not Selected

Issue: Mitas Vendor Access / Change Management

The Mitas application is supported by a third party vendor, and a formal policy has been created for granting the vendor temporary access to the system. However, there is no formal documentation that can evidence management approval and successful testing within a test environment before a change is made by the vendor in the production environment.

Recommendation

Emails or other formal documentation should be retained to evidence testing and approvals for all production changes to the Mitas application.

Status:

- 02/16/10 - On February 29, 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19, 2008. These procedures are implemented.
- 09/17/09 - Auditors read issue to be partially verified as implemented by Deloitte and still need verification for the following:

"there is no formal documentation that can evidence management approval and successful testing within a test environment before a change is made by the vendor in the production environment."
- 06/26/08 - Reported to Board as Implemented per Management.
- 04/22/08 - On February 29 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19, 2008. These procedures are implemented.
- 12/19/07 - On December 18, 2007, the Information Systems Division (ISD) created a shared email folder to house correspondence related to Mitas system access, testing, and software changes. Mitas system users and ISD staff are able to copy email correspondence to this folder. By January 31, 2008, the Financial Administration Division and ISD will update the applicable written procedures to include the exact process for using the folder to document management approval and successful testing of vendor changes.

<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>
31	12/11/2007 Internal Audit	Multifamily 9% Housing Tax Credit Program - Application and Award Processes Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio	Px	12/11/07 2/29/2008

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Issue: Chapter 1-B:
Individuals Under Indictment Were Recommended for Tax Credit Awards

As required by program rules, individuals involved with an application must certify that they are not subject to any pending criminal charges. However, two individuals were indicted after submitting an application and the required certification, but the development they were involved with was still recommended to receive an award.

The Department does not require the applicant to disclose any indictments the related parties of the application may be under from the time of their certification to the time awards are made by the Board.

In one instance, the charges brought against the individual were dropped, and the development was awarded a forward commitment from the 2008 credit ceiling. In the second case, the person under indictment was removed from the development and the development was awarded a forward commitment from the 2008 credit ceiling; however, the name of the individual under indictment still appeared on the forward commitment letter. This individual did not sign the forward commitment.

Recommendation

The Department should revise its certification requirement to include a requirement that the applicant should notify the Department if the applicant, development owner, developer, guarantor, or any of their related parties is subject to any criminal proceedings during the course of the tax credit cycle. The notification may not disqualify the development for an award; however, the information should be presented to the Board for their consideration prior to the issuing of awards. The Department should retain documentation of this information in the application file.

Status:

- 07/16/10 - Notification was added to the applicant certification in the uniform application. Changes to the QAP to include this requirement are still pending.
- 02/23/10 - This notification was added to the applicant certification in the uniform application.
- 06/12/09 -
- 12/11/07 - Staff will implement the audit recommendation and include this requirement in the Uniform Application and the application review forms, and/or the QAP for the 2009 Tax Cycle.

<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>
32	12/11/2007 Internal Audit	Multifamily 9% Housing Tax Credit Program - Application and Award Processes Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio	Px	12/11/07 3/31/2008

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Nr 06/12/09
Ix 02/23/10

Issue: Chapter 2-A:
A Lack of File Organization Results in Inconsistent Applicant Information

Department staff is not organizing or referencing documents in the application files which makes it difficult to find the most recent documentation, or to determine if documents have been removed.

The applicant's responses to deficiencies are not linked or referenced to the original documents within the application file. This results in incomplete documents being accepted simply because they address the deficiency, while other required information on the original document may be omitted from the revised version. All updated documents are required to stand on their own. This issue is further complicated when subsequent deficiencies are found on the new document and yet another document must be submitted to provide the required information.

Department staff removes documents from the application files without noting when they removed the documents or where they are now located. For example, support and opposition letters are removed from the application file as they are received, and filed together awaiting a separate review. The lack of staff documentation regarding when and where the documents have been removed results in the appearance that documents are missing or were never provided.

There were also instances noted where Real Estate Analysis staff removed copies of the financial statements from the application files, but failed to note they had removed them. This resulted in the appearance that the documents were never provided by the applicant. In addition, one current forward commitment file could not be located.

Recommendation

The Department should:

- highlight and flag information used as support for items within the various checklists. Cross-referencing checklist items to where the information is located in the application file may help in this process,
- develop a system, by which deficiency responses can be easily linked or referenced to the original document,
- develop a chronology sheet to document changes to the file, requests made of the applicant, or other information not readily apparent in the file,
- include time and date stamps on all documents received, and
- consider the use of software, like the TeamMate Audit Management System, that can be used to automate and link documents for ease of review.

Status:

02/23/10 - Management purchased multiple electronic date/time stamps which are strategically located in specific areas of the division. An electronic tracking documentation system is maintained for deficiencies between divisional personnel. The Department is attempting to implement an electronic application for the 2010 HTC cycle. Furthermore, an electronic tracking system has been established and is maintained between divisions. All deficiencies are linked to the electronic tracking and separate electronic folders are created for each application for deficiency responses, the review sheets and any emails relating to the application.

06/12/09 -

12/11/07 - Staff will implement the audit recommendations and create a system to track deficiencies and changes to the application.

<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>
33	12/11/2007 Internal Audit	Multifamily 9% Housing Tax Credit Program - Application and Award Processes Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio	Px	12/11/07 3/31/2008

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Nr 06/12/09
Ix 02/23/10

Issue: Chapter 2-B:
Deficiency Responses Do Not Always Contain All of the Required Information

When a response to an administrative deficiency notice is received, the reviewer who issued the notice reviews the documents and determines if the response is adequate. If the reviewer determines the response is adequate they write an "R" on the checklist to indicate the deficiency was resolved.

In three instances, the checklist indicated the deficiency was resolved, but the updated information or documentation could not be found in the file. In four other instances, the response was insufficient to address the original deficiency, yet the review sheet was marked as "resolved".

Recommendation

The Department should ensure the information submitted to resolve deficiencies is complete and correct, and is linked to the part of the application file where the deficiency was noted, so subsequent reviewers can easily locate the new information.

Status:

- 02/23/10 - An electronic tracking system has been established and is maintained between divisions to mitigate this issue. All deficiencies are linked to the electronic tracking.
- 06/12/09 -
- 12/11/07 - Staff will implement the audit recommendation and create a system to document deficiencies and changes.

<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>
35	12/11/2007 Internal Audit	Multifamily 9% Housing Tax Credit Program - Application and Award Processes Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio	Px	12/11/07 7/31/2008

Division: Multifamily

Section: 9% Housing Tax Credit Progra

Nr 06/12/09
Ix 02/23/10

Issue: Chapter 3-B:
Application Log Does Not Meet All Statutory Requirements

While the Department posts most of the required application and award information on its website within various reports, there is no application log, as defined in statute, posted to the website. In addition, some of the information required by statute is not posted to the Department's website. Items required as part of the application log that are not posted to the website include: names of the related parties to the applicant, the score of the application in each scoring category adopted by the Department under the QAP, any decision made by the Department or Board regarding the application, the names of persons making these decisions, including the person scoring and underwriting the application, and a dated record and summary of any contact between the Department staff, the Board, and the applicant or related parties.

In addition, scoring sheets providing details of the application score are not posted as required by the Texas Government Code §2306.6717 (2). A log of all application scores is posted (application scoring log); however, this log only contains summary information, and does not contain details as required by statute. Texas Government Code §2306.6717 (a) (2) states, "Subject to §2306.67041, the department shall make the following items available on the department's website: before the 30th day preceding the date of the relevant board allocation decision, except as provided by Subdivision (3), the entire application, including all supporting documents and exhibits, the application log, a scoring sheet providing details of the application score, and any other document relating to the processing of the application." Subdivision (3) states, "not later than the third working day after the date of the relevant determination, the results of each stage of the application process, including the results of the application scoring and underwriting phases and the allocation phase."

In addition, the Texas Government Code §2306.6709 states, "APPLICATION LOG. (a) In a form prescribed by the department, the department shall maintain for each application an application log that tracks the application from the date of its submission.

- (b) The application log must contain at least the following information:
- (1) the names of the applicant and related parties;
 - (2) the physical location of the development, including the relevant region of the state;
 - (3) the amount of housing tax credits requested for allocation by the department to the applicant;
 - (4) any set-aside category under which the application is filed;
 - (5) the score of the application in each scoring category adopted by the department under the qualified allocation plan;
 - (6) any decision made by the department or board regarding the application, including the department's decision regarding whether to underwrite the application and the board's decision regarding whether to allocate housing tax credits to the development;
 - (7) the names of persons making the decisions described by Subdivision (6), including the names of department staff scoring and underwriting the application, to be recorded next to the description of the applicable decision;
 - (8) the amount of housing tax credits allocated to the development; and
 - (9) a dated record and summary of any contact between the department staff, the board, and the applicant or any related parties."

Recommendation

The Department should post the application log information, or a map or spreadsheet that references the location of the information required by the Texas Government Code. If some of the information is not available by the statutory deadline, the Department should post the information available on the deadline, and amend the application log as needed when additional required information comes available. In addition, the Department should post the scoring sheets as required.

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

02/23/10 - All required information is published to the Department's website.

06/12/09 -

12/11/07 - Staff will implement the audit recommendations.

<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>
39	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 Px 12/01/08 Ix 06/15/09	10/1/2008 2/20/2009

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 2-A
The Contract System Should Track Budget Information for Subrecipients

The budgets that subrecipients submit at the beginning of the program year are not included in the automated contract system used to track the subrecipients' expenditure reports. In addition, the percentage of actual funds expended is not calculated and compared to the budget. This causes a problem because once a budget is approved, subrecipients can spend money from any budgeted line item as long as they do not exceed the total amount they were awarded. As a result, there is less accountability for the accuracy of budget projections and for actual expenditures compared to budgeted amounts. In addition, the "other" category of expenses includes direct services and many other types of expenses that should be further separated into line items. The purpose of comparing budgeted amounts to actual expenditures is to help program staff assess the ongoing status of the subrecipient contracts, not to identify unallowable expenditures.

The Community Affairs Division's Comprehensive Energy Assistance Program utilizes an expenditure report that includes budget information.

Recommendations

- o Budgets should be entered into the contract system at the budget line item level in order to ensure that subrecipients are not exceeding their approved budget amounts for any of the budgeted line items.
- o The percentage of actual funds expended should be calculated in the contract system and compared to the budgeted amount for each line item.
- o Line items should be created to address the most common expenditures now included in the "other" category.

Status:

- 06/15/09 - CS staff currently enters the CSBG budget category information in the note section of the CSBG contract system. Documentation related to expenditures reviews, which may have excess cash issues, are filed in T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\2009\Expenditure Reviews. CSBG statute allows flexibility in the use of funds to support operations and has no restrictions or caps on specific budget categories.
- 12/01/08 - Community Services staff will enter the CSBG budget category information in the Community Affairs Contract System in the "Notes" section beginning in FY 2009. Documentation related to expenditures reviews, will be filed: T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\2008\Expenditure Reviews. The CSBG statute allows great flexibility in the use of funds to support operations and has no restrictions or caps on specific budget categories.
- 06/11/08 - Management agrees that the existing system and processes used to monitor CSBG expenditures needs to be altered to address these recommendations. It is important to note that the Department has limited ability to disapprove CSBG expenditures or deny requests to modify the CSBG budget if the activities are defined as allowable in the CSBG Act. Staff will expand the existing monitoring instrument to address this concern and provide training and technical assistance to subrecipients regarding budget preparation for those subrecipients that repeatedly change the CSBG budget.

<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>
40	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

Px 06/11/08 10/31/2008
Px 12/01/08 2/20/2009
Ix 06/15/09

Issue: Chapter 2-B
Community Services Staff Should Ensure Subrecipients Do Not Receive More Than a 30-day Supply of Funds

The expenditure reports in the contract system track projected expenditures for the next month, the prior month's expenditures and the cumulative expenditures of each subrecipient. The contract system uses this information to calculate the subrecipients' cash on hand. However, from our review of a sample of seven expenditure reports and five monitoring files which contain information on subrecipients' bank accounts, it appears that some subrecipients are receiving or retaining more than a 30-day supply of funds. The State of Texas Plan and Consolidated Application and the CSBG contract limit subrecipients to a 30-day supply of cash on hand. The contract specialist is responsible for reviewing the monthly expenditure reports and alerting the program officers if a subrecipient appears to have requested more than a 30-day supply of cash.

However, as long as the funds requested do not exceed 1/12 of the total annual allocation, funding requests are approved. As a result, subrecipients may be able to maintain higher balances of cash on hand. This increases the risk that the excess cash could be converted to non-CSBG uses.

Recommendations

During the monthly review of expenditure reports, Community Services staff should review the prior month's advances for specific line items and compare them against the actual expenditures reported by line item to ensure that the most recent funding request is reasonable.

The funding requests should be compared to the budget to determine a percentage of the total budget and to determine the reasonableness of the request.

Status:

- 06/15/09 - CS staff reviews monthly expenditure reports to determine the reasonableness of the request. Documentation related to expenditures reviews, which may have excess cash issues, will be filed in T:\ca\all ca scanned\cacs scanned\Monitoring & Working Files\CSBG\2008\Expenditure Reviews. Subrecipients with issues related to advanced payments will receive training and technical assistance.
- 12/01/08 - Community Services staff will continue to review monthly expenditure reports to determine the reasonableness of the request for advance payments. Documentation related to expenditures reviews will be filed in T:\ca\all ca scanned\cacs_scanned\Monitoring & Working Files\CSBG\2008\Expenditure Reviews. Subrecipients with issues related to projections and excessive advanced payments will receive training and technical assistance from Department staff.
- 06/11/08 - Procedures will be instituted to thoroughly ensure that funding requests are reasonable as noted in the recommendation, and controls put in place to be sure that the procedures are followed. Staff will provide training and technical assistance to subrecipient staff, as needed, to improve the process to project expenditures and request advance payment.

<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>
42	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 1/1/2009

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-B
The Review of Subrecipient Financial Information Should Be Improved

Px	06/11/08	1/1/2009
Px	12/01/08	3/31/2009
Ix	06/15/09	
Px	06/17/09	7/30/2009
Nr	03/01/10	
Ix	07/13/10	

The program officers who monitor the subrecipients for compliance review some financial information, but the information they gather, review and retain is not sufficient to formulate a complete picture of the subrecipient's financial condition. Subrecipients who receive in excess of \$500,000 in annual grant funding are required to submit an audited annual financial report (AFR) to the Department no later than nine months after the end of their fiscal year. The AFR also includes opinions rendered on the major programs and the internal controls, as well as a schedule of expenditures of federal awards to comply with the Office of Management and Budget's (OMB) Circular A-133 Compliance Supplement. The AFRs are reviewed by the Department's Portfolio Management and Compliance Division (PMC), but the program officers do not compare the financial information in the AFRs to the other financial documents gathered during monitoring.

In at least one case, we noted that a subrecipient's annual audit resulted in a separate management letter addressing potential problems with the subrecipient's financial operations. This management letter provided important information that should have been used in the monitoring process, but the management letter was not obtained on a timely basis and may not have been reviewed by the program officer. Not obtaining and reviewing all of the results of the AFR increases the likelihood that fraud, waste or abuse could go undetected.

Program officers review financial documentation, but generally have not retained all of the documentation needed to verify assertions about bank account and general ledger fund balances. For example, the program officer may collect data on the income statement accounts (revenue and expenditures.) They may also review bank account data (bank statement, bank reconciliation, and accounting records such as the general ledger detail of the bank account activity.) However, the documents copied and retained are often missing one or more of these. If bank reconciliations are not completed timely or are not available during the on-site monitoring visit, the request for "the most recent" bank reconciliation will not tie to the data already collected, and is not of any significant value.

Recommendations

Subrecipients should be required to submit to the Department any management letters resulting from their AFR audit when submitting the AFR.

Program officers should obtain and review a copy of the most recent audited AFR and any associated management letters prior to conducting an on-site monitoring visit. This information should then be compared to the financial documents reviewed during monitoring.

A complete general ledger printout for the month(s) reviewed (including the asset, liabilities and equity accounts in addition to revenue and expenditures) should be obtained along with the banking account data. This document would allow the program officer to verify that the accounting records are complete and in balance, verify the timely posting of account activity and provide the opportunity to determine whether any inter-fund activity occurred. Any general journal adjustments to the accounts would be easily identified.

Status:

07/13/10 - Community Affairs "Monitoring" Standard Operating Procedure have been revised to require Program Officers to review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC Sec. 5.16(b). Program Officers review documents and determine if follow-up is needed. Beginning with the FY 2009 contracts, a requirement is included that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.

03/01/10 -

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
06/17/09 -		Community Affairs "Monitoring" Standard Operating Procedure will be revised to require that Program Officers review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC §5.16 (b). Program Officers review documents and determine if follow-up is needed. FY 2009 contracts include the requirement that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.
06/15/09 -		The Community Affairs "Monitoring" Standard Operating Procedure Has been revised to require that Program Officers review the latest copy of the Audited Financial Report (AFR) and any related management letters on file. The general provisions of the TAC were revised to require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC §5.16 (b). Program Officers review documents and determine if follow-up is needed. FY 2009 contracts include the requirement that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments have been revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.
12/01/08 -		The Community Affairs "Monitoring" Standard Operating Procedure will be revised to require that Program Officers review the most recent copy of the Audited Financial Report (AFR) and any related management letters on file. The proposed general provisions of the TAC will require subrecipients to submit a copy of the AFR to the Community Affairs Division and to Portfolio Management and Compliance Division (PMC) 10 TAC §516 (b). Program Officers will review documents and determine if follow-up is needed. FY 2009 contracts will include the requirement that a copy of the AFR be sent to the Community Affairs Division. Monitoring instruments will be revised to address review of general ledger and bank account data to verify complete accounting records and review account activity.
06/11/08 -		The Community Services Block Grant (CSBG) and Emergency Shelter Grants Program (ESGP) Monitoring Standard Operating Procedures will be revised to require that Program Officers obtain a copy of the latest Audited Financial Report (AFR) and any related management letter on file within the Portfolio Management and Compliance Division (PMC). The CA Director will recommend updates to the CSBG and ESGP rules and contracts during the next rules and contract cycle to specify the requirement of submission of the AFR and management letters to CA in addition to PMC. The Program Officer will review the AFR and management letter to determine if follow up is needed. Processes will also be changed regarding review of general ledgers and banking account data to verify that the accounting records are complete and in balance, verify the timely posting of account activity and provide the opportunity to determine whether any interfund activity occurred. Staff will be trained in this area.

<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>
43	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		

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 3-C
Criteria for Cost Reimbursement Should Be Identified

Community Services has not defined the criteria used to decide what sanctions to apply to subrecipients who have significant or repeated monitoring findings, or who do not comply with the CSBG grant requirements. An example of non-compliance is the failure to submit an audited AFR as required. The most significant sanction available to CSBG program staff is to place a subrecipient on cost reimbursement. This means that instead of receiving their grant funds in advance, the subrecipients placed on cost reimbursement must submit their receipts, invoices and check stubs for actual expenses in order to be reimbursed by the Department with CSBG funds. Without clear criteria for cost reimbursement or other sanctions, the Department could be left open to allegations of favoritism, inequities, or discrimination.

Recommendations

Community Services should define the range of sanctions that can be used for the various types of monitoring findings or issues of non-compliance. The following issues should be included:

- o Fiscal mismanagement, fraud, waste and abuse,
- o Repeated findings from previous monitoring reports that show a pattern of noncompliance (special attention should be paid to repeat financial findings),
- o Issues with the composition of the subrecipient's governing board, including issues concerning board member attendance and representation, and general management failures, and
- o Unresolved findings outstanding for a given period of time. For example, findings that are not resolved within a designated period of time should immediately prompt a decision regarding sanctions.

Status:

- 07/13/10 - The TAC rules have been revised to address "sanctions" in Sec. 5.17 "Sanctions and Contract Close Out". The Sanctions SOP has been revised to incorporate the TAC revisions.
- 03/01/10 -
- 09/29/09 - The TAC Rules have been revised to address "sanctions" in §5.17 "sanctions and Contract Close Out". The Sanctions SOP will be revised to incorporate the TAC revisions. This document is currently under development.
- 06/17/09 - The TAC rules have been revised to address "sanctions" in §5.17 "Sanctions and Contract Close Out". The Sanctions SOP will be revised to incorporate the TAC revisions.
- 06/12/09 -
- 12/01/08 - The Texas Administrative Code Rules have been revised to address "Sanctions" in §5.17 "Sanctions and Contract Close Out". The TAC Rules will be codified in January 2009. The Sanctions SOP will be revised to incorporate the TAC revisions.
- 06/11/08 - The existing Sanctions Standard Operating Procedure will be revised to define the range of sanctions that can be used for the various types of monitoring findings or issues of non-compliance and how and when the sanctions will be applied.

Px	06/11/08	11/1/2008
Px	12/01/08	1/31/2008
Nr	06/12/09	
Px	06/17/09	7/30/2009
Px	09/29/09	12/1/2009
Nr	03/01/10	
Ix	07/13/10	

<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

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

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.

Status:

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>
48	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 11/13/2008

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 4-B
Information Submitted by Subrecipients in Support of Performance Awards Should be Tested for Accuracy

Px	06/11/08	11/13/2008
Px	12/01/08	5/31/2009
Px	06/15/09	5/31/2010
Px	09/21/09	4/1/2010
Nr	03/01/10	
Nx	07/13/10	

In August of 2007, twenty-eight subrecipients received a total of \$164,000 in performance awards for individuals transitioned out of poverty during the 2006 program year. Analysis of a judgmental sample of 30 families transitioned out of poverty showed that 18 (60%) of the 30 families' files tested did not contain sufficient correct documentation to support the assertion that these families were transitioned out of poverty. Subrecipients are required to submit a list of the families that they transition out of poverty as support for their performance award; however these lists do not contain details such as full names and social security numbers. Community Service's staff verify that the listed incomes are within the poverty level guidelines and that the dates listed support the assertion that the families' income was above 125% of the poverty level for at least 90 days. The analysis of the 30 families' documentation showed errors including:

- Math errors
- Considering partial paychecks at intake and full paychecks in determining that the family was out of poverty,
- Overtime not included when determining the family was in poverty but including overtime in order to determine that the family was out of poverty, and
- Not including a spouse's income to determine the family was in poverty, then including the spouse's income to determine that the family was out of poverty.

In addition, there were three families who were transitioned out of poverty, but the wage earners in these families were the subrecipient's own employees. Although not against the rules, this practice is questionable when used as support for a performance award.

Recommendations

If the Department provides monetary awards to subrecipients for transitioning clients out of poverty, Community Services staff should:

- Select a random sample from the list of clients submitted to support the number of clients transitioning out of poverty,
- Request the supporting documentation (income verification) for the selected clients at all points: intake, transitioned out of poverty and 90 days post transition,
- Require subrecipients to provide full names and social security numbers (if available) for each family member transitioned out of poverty and verify that these social security numbers are valid,
- Develop standardized rules that will eliminate any "easy fixes" such as considering a partial paycheck for intake and a full paycheck for out of poverty, or considering overtime for out of poverty calculations, and
- Revise the eligibility criteria in order to prevent subrecipients from receiving an award for their own employees.

Status:

07/13/10 - At the last meeting of the CSBG Performance Awards Advisory Committee on December 18, 2009, the Committee recommended an indefinite suspension of the CSBG performance awards. Therefore, no further action is required. If the Committee recommends and the Department's management implements a process to recognize high performing CSBG eligible entities, a standardized process will be developed and presented to the Board.

03/01/10 -

09/21/09 - Community Affairs has an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting was held on December 15, 2008. It is anticipated that the committee will meet again in 2010 and provide recommendations regarding the performance awards process.

06/15/09 - Community Affairs has formed an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting of the committee was held December 15, 2008. It is anticipated that the committee will continue to meet throughout 2009 and 2010 and provide recommendations regarding the performance awards process.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
12/01/08 -		The Community Affairs Division has formed an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting of the committee will be 12/15/08. It is anticipated that the committee will complete the project by 3/31/09. Staff will make recommendations to the Executive Team and/or Governing Board to revise internal procedures and amend TAC rules related to the performance awards process.
06/11/08 -		To the degree that Performance Awards are utilized, and that transitioning people out of poverty is the measurement used to grant performance awards, staff will recommend that the Texas Administrative Code be revised to include a standard methodology for calculating income to ensure consistent and comparable results. Prior to conferring CSBG performance awards, the Department will select a random sample of client files to verify the accuracy of the data used for granting performance awards. Staff will provide clarification to subrecipients on the criteria that need to be met to report a client as transitioned out of poverty. The Department will require that the subrecipient's executive director and/or program director certify in writing that the clients were transitioned out of poverty as reported. Staff will revise the eligibility criteria for CSBG performance awards to exclude clients who were hired by the subrecipient and consequently transitioned out of poverty. Staff will research a reasonable procedure by which subrecipients can verify the validity of social security numbers to the extent they are provided.

<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>
49	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 1/1/2009

Division: Community Affairs

Section: Community Services - CSBG

Issue: Chapter 4-C
Performance Awards Should Only Be Given to Subrecipients Who Meet the Eligibility Criteria

Px	06/11/08	1/1/2009
Px	12/01/08	5/31/2009
Px	06/15/09	5/31/2010
Px	09/21/09	4/1/2010
Nr	03/01/10	
Nx	07/13/10	

In the program year 2006 awards cycle given out in August 2007, there were seven awards totaling \$25,000 given to subrecipients that had unresolved audit findings from their most recent on-site monitoring visits. In addition, performance awards totaling \$20,000 were given to five subrecipients that were delinquent in submitting their audited annual financial report at the time of the award. These subrecipients were ineligible to receive a performance award under the criteria established by the Department. The \$45,000 given out in error represents 27% of the \$164,000 in awards given out during the program year 2006 award cycle.

Recommendation

Community Services staff should ensure that all subrecipients who receive a performance award meet the criteria for receiving an award. In addition, the criteria should be amended to prohibit any subrecipient from receiving an award if they were delinquent in meeting their single audit requirements at any time during the year, not just at the time of the performance awards.

Status:

- 07/13/10 - At the last meeting of the CSBG Performance Awards Advisory Committee on December 18, 2009, the Committee recommended an indefinite suspension of the CSBG performance awards. Therefore, no further action is required. If the Committee recommends and the Department's management implements a process to recognize high performing CSBG eligible entities, a standardized process will be developed and presented to the Board.
- 03/01/10 -
- 09/21/09 - Community Affairs has an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting was held on December 15, 2008. It is anticipated that the committee will meet again in 2010 and provide recommendations regarding the performance awards process. Community Affairs will coordinate with the Portfolio Management and Compliance Division to ensure organizations are not delinquent in their single audit requirements.
- 06/15/09 - Community Affairs has formed an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting of the committee was held December 15, 2008. It is anticipated that the committee will continue to meet throughout 2009 and 2010 and provide recommendations regarding the performance awards process. Community Affairs will coordinate with Portfolio Management and Compliance Division to ensure organizations are not delinquent in their single audit requirements.
- 12/01/08 - The Community Affairs Division has formed an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting of the committee will be 12/15/08. It is anticipated that the committee will complete the project by 3/31/09. Staff will make recommendations to the Executive Team and/or Governing Board Staff to revise internal procedures and amend TAC rules related to the performance awards process. Community Affairs will coordinate with Portfolio Management and Compliance Division to ensure organizations are not delinquent in the single audit requirements.
- 06/11/08 - To the extent that CSBG Performance Awards are utilized and that transitioning people out of poverty is the measurement used to grant performance awards, the Department will provide clarification to subrecipients on the criteria which need to be met in order to qualify to receive a CSBG performance award. Further, the CA Director will require submission of the AFR and management letters to CA in addition to PMC and will collaborate with PMC in their review to ensure no awards are made to organizations delinquent in their single audit requirements.

<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
			Ix	12/01/08

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.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
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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>
53	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 6-B
Community Services Should Ensure That Subrecipients Comply with Federal Salary Requirements

Px	06/11/08	9/1/2008
Px	12/01/08	2/28/2009
Ix	06/15/09	
Px	06/19/09	
Nr	03/01/10	
Ix	07/13/10	

The program officers who monitor the ESGP subrecipients do not review the supporting documentation for salaries in order to ensure that subrecipients comply with the Office of Management and Budget's (OMB) Circular A-122, which covers cost principles for nonprofit organizations, and Circular A-87, which covers cost principles for state, local and Indian tribal governments.

Circulars A-122 and A-87 require subrecipients' timesheets to reflect actual time worked. However, the monitoring instrument for ESGP asks, "Do the time sheets reflect actual time worked or a budgeted percentage?" Also, the program officers do not review to ensure that the timesheets are for the total activity of the employee, are maintained at least monthly, are signed by the employee or the authorized supervisor (for the non-profit subrecipients), and that the time sheet is signed by the employee (for state, local and Indian tribal government subrecipients.) Circular A-87 also requires that when an employee is working solely on a single program, the wages are supported by a periodic certification that is prepared at least semi-annually and is signed by the employee or a supervisory official having first hand knowledge of the work performed by the employee.

Recommendation

The monitoring instrument should be modified in order to require the program officers to review time sheets to ensure that the time reported is the actual time worked. The program officers should also ensure that the timesheets are for the total activity of each employee, that they are maintained at least monthly, and that they are signed by the correct individuals as required by Circulars A-122 (non-profits) and A-87 (state, local and Indian tribal governments.)

Status:

- 07/13/10 - The ESGP Monitoring Instrument was revised in 2008 and additional revisions were made 7/1/2010 to address the need for Program Officers to review timesheets, to compare and verify actual time worked, and to check for compliance with A-122 and A-87.
- 03/01/10 -
- 06/19/09 - After reviewing the ESGP Monitoring Instrument, the following items were noted:
 1. The revised ESGP Monitoring Instrument DID include provisions for a program officer to review timesheets
 2. The Monitoring Instrument did NOT include a requirement for time reported to be compared and verified for actual time worked.
 3. The Monitoring Instrument did NOT include a requirement for compliance with Circulars A-122 and A-87.
- 06/15/09 - Emergency Shelter Grant Program Monitoring instrument was revised March 9, 2009 to address requirements related to timesheets.
- 12/01/08 - The ESGP Monitoring instrument will be revised to address requirements related to timesheets.
- 06/11/08 - The Emergency Shelter Grants Program (ESGP) monitoring instrument will be revised to expand the questions, and oversight, related to the review of subrecipient timesheets as required by OMB Circulars A-122 and A-87 and as further clarified by the Department's Legal Division.

<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>
55	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 6-D
Subrecipients Should Document the Review of Client Eligibility Prior to Providing Funding for Essential Services

Px	06/11/08	9/1/2008
Px	12/01/08	2/28/2009
Nr	06/12/09	
Ix	06/17/09	
Px	03/22/10	
Ix	07/13/10	

Two of the four categories of ESGP funds, homeless prevention funds and essential services funds are used to assist clients. Most ESGP clients receive homeless prevention services which consist of rent or utilities payments, or other services paid for with ESGP funds to prevent homelessness. Most of the essential services funds are used for subrecipient administration, but some clients receive funds from essential services, which are payments made directly to the client for things like bus tokens, job training or medical and psychological counseling. The subrecipients are not required to retain completed intake forms for clients that receive essential services, and program officers do not review client files to determine if the clients who received these funds were eligible.

Recommendation
Eligibility should be reviewed, documented and retained for all clients who receive essential services.

Status:

- 07/13/10 - The ESGP Monitoring Instrument was revised in 2008 and additional revisions were made 7/1/2010 to address the need for program officers to review eligibility documentation and to ensure such is maintained by subrecipient for clients receiving ESGP funded essential services.
- 03/22/10 - Internal Audit received a portion of the 2008 ESGP Monitoring Instrument marked specifically for Chapter 6-D, with an asterisk by the statement that reads "41. Is there a system of control for the accounting of vouchers, bus tickets, and other direct services provided with ESGP funds?" While the auditor understands this to be a way to maintain documentation of the essential services provided, the recommendation specifically asks that eligibility should be reviewed, documented, and retained for all clients receiving essential services. The auditor would need to see where eligibility is maintained for each client.
- 06/17/09 - ESGP Monitoring instrument was revised to indicate client eligibility requirements.
- 06/12/09 -
- 12/01/08 - The ESGP Monitoring instrument will be revised to affirm the eligibility of clients for essential services.
- 06/11/08 - Intake forms are currently required for homelessness prevention services provided directly to the clients such as rental subsidies and utility payments. When subrecipients provide essential services that include food, bus tokens and personal hygiene items (such as soap and shampoo), subrecipients maintain a log detailing client names. However, staff will improve on this tool so that it has the ability to affirm eligibility of clients for essential 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>
62	5/6/2009 Internal Audit	Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi The scope of this audit included the loan document processing and loan servicing functions	Px	05/06/09 7/31/2009

Division: HOME

Section: Contract for Deed

Issue: Chapter 1-B

Condition: A. In five of twenty-three paid in full (zero balance) homebuyer assistance loans tested (21.7%), the Department did not collect the correct amount from the borrower. For example, we found one loan that was paid off in May 2007. This loan provided for 1/10 of the principal balance to be forgiven in each year of the ten-year term of the loan. The payoff was for the full amount, even though one year of principal should have been forgiven. This resulted in \$1,000 overpayment by the homeowner that has not yet been refunded almost two years later.

B. Contract for deed HUD-I settlement statements are not reviewed in a timely manner Six of twenty-nine (20.7%) homebuyer assistance files tested did not reflect the accurate principal balance. In six of six files tested (100%), the final closing costs were less than estimated. In four of the six files (66.7%), the reduction to the principal balance of the deferred loan was not posted to the homeowner's account.

Cause: The balances for these loans were not accurately recorded in MITAS, which is the Department's internal accounting system used to track loans. The inaccurate balance information in MITAS resulted in the inaccurate recapture of funds from borrowers who sold their property. The Department is not in compliance with the terms of the note for the down payment assistance program, resulting in an overstatement of the loan balances.

Criteria: The Department of Housing and Urban Development (HUD) requires that program income be used to fulfill draw requests prior to requesting program year funding.

Effect: A. We noted instances where borrowers were due money which had not yet been paid. Payments were not posted on the anniversary date as required by the note. B. Although unused funds are returned to the appropriate HOME program year, the homeowners' loan balances are not reduced by the loan servicing department until instructed by HOME staff, which may take as long as a year.

Recommendation: The Department should:

A. ensure that the information in the MITAS system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan, and refund overpayments promptly

B review the contract for deed HUD-I settlement statements and reduce the loan balance in a timely manner.

Status:

- 10/01/09 - Procedures have been implemented to ensure that the daily deferral process is run in the absence of the primary person assigned to perform this function. Team leader is reviewing the monthly management report to insure that there are not any outstanding deferrals. Loan setup audits are being reviewed monthly by loan specialist staff responsible for setting up new loans. Procedures have been implemented to insure that any refunds due, as a result of a payoff, are processed timely.
- 06/12/09 - Loan Servicing staff will implement procedures to insure that Mitas system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan. And refunds of overpayments are done timely. (David Cervantes - Financial Administration)
- 06/11/09 - In order to ensure review and accurate reconciliation of borrower loan balances in the Department's systems, the HOME Division has amended its Loan Closing Standard Operating Procedure (SOP) to delineate a subprocess for review of the HUD-1 Settlement Statement and updating loan balances, as necessary, in the loan servicing system. In addition to the SOP, the Loan Closing Fule Table of Contents, the Table Funding Checklist for Loan Activities, and Contract for Deed Draw Request Checklist--Form 16.11, indicated different levels of review regarding the Borrower's HUD-1 Settlement Statement. (Jeannie Arellano - HOME)
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto). Within the next 90 days, management will also ensure that refunds are addressed timely (Stephanie D'Couto) and will put a process in place to review the HUD-I and communicate adjustments timely (Lora Myrick).

<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>
62	5/6/2009 Internal Audit	Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi The scope of this audit included the loan document processing and loan servicing functions	Px	05/06/09 7/31/2009

Division: Financial Administration

Section: Loan Servicing

Issue: Chapter 1-B

Condition: A. In five of twenty-three paid in full (zero balance) homebuyer assistance loans tested (21.7%), the Department did not collect the correct amount from the borrower. For example, we found one loan that was paid off in May 2007. This loan provided for 1/10 of the principal balance to be forgiven in each year of the ten-year term of the loan. The payoff was for the full amount, even though one year of principal should have been forgiven. This resulted in \$1,000 overpayment by the homeowner that has not yet been refunded almost two years later.

B. Contract for deed HUD-I settlement statements are not reviewed in a timely manner Six of twenty-nine (20.7%) homebuyer assistance files tested did not reflect the accurate principal balance. In six of six files tested (100%), the final closing costs were less than estimated. In four of the six files (66.7%), the reduction to the principal balance of the deferred loan was not posted to the homeowner's account.

Cause: The balances for these loans were not accurately recorded in MITAS, which is the Department's internal accounting system used to track loans. The inaccurate balance information in MITAS resulted in the inaccurate recapture of funds from borrowers who sold their property. The Department is not in compliance with the terms of the note for the down payment assistance program, resulting in an overstatement of the loan balances.

Criteria: The Department of Housing and Urban Development (HUD) requires that program income be used to fulfill draw requests prior to requesting program year funding.

Effect: A. We noted instances where borrowers were due money which had not yet been paid. Payments were not posted on the anniversary date as required by the note. B. Although unused funds are returned to the appropriate HOME program year, the homeowners' loan balances are not reduced by the loan servicing department until instructed by HOME staff, which may take as long as a year.

Recommendation: The Department should:

A. ensure that the information in the MITAS system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan, and refund overpayments promptly

B review the contract for deed HUD-I settlement statements and reduce the loan balance in a timely manner.

Status:

- 10/01/09 - Procedures have been implemented to ensure that the daily deferral process is run in the absence of the primary person assigned to perform this function. Team leader is reviewing the monthly management report to insure that there are not any outstanding deferrals. Loan setup audits are being reviewed monthly by loan specialist staff responsible for setting up new loans. Procedures have been implemented to insure that any refunds due, as a result of a payoff, are processed timely.
- 06/12/09 - Loan Servicing staff will implement procedures to insure that Mitas system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan. And refunds of overpayments are done timely. (David Cervantes - Financial Administration)
- 06/11/09 - In order to ensure review and accurate reconciliation of borrower loan balances in the Department's systems, the HOME Division has amended its Loan Closing Standard Operating Procedure (SOP) to delineate a subprocess for review of the HUD-1 Settlement Statement and updating loan balances, as necessary, in the loan servicing system. In addition to the SOP, the Loan Closing Fule Table of Contents, the Table Funding Checklist for Loan Activities, and Contract for Deed Draw Request Checklist--Form 16.11, indicated different levels of review regarding the Borrower's HUD-1 Settlement Statement. (Jeannie Arellano - HOME)
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto). Within the next 90 days, management will also ensure that refunds are addressed timely (Stephanie D'Couto) and will put a process in place to review the HUD-I and communicate adjustments timely (Lora Myrick).

<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>
63	5/6/2009 Internal Audit	Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi The scope of this audit included the loan document processing and loan servicing functions	Px	05/06/09 7/31/2009

Division: Financial Administration

Section: Loan Servicing

Issue: Chapter 2

Condition: Once eligibility is determined and construction is complete, no further monitoring of the homeowner or the property is conducted to ensure the property continues to the primary residence of the borrower.

Cause: The Department has not taken reasonable measures to verify that the property continues to be the homeowner's principal residence throughout the period of affordability.

Criteria: HUD home loans require the homeowner to use the property as his/her principal residence for the term of the period of affordability.

Effect: The Department risks being cited by HUD for non-compliance.

Recommendation: The Department should develop a method to help ensure that the principal residence requirement is met for those properties that require it and for which the Department is the first lien holder. Some options for this include:

- consistently collecting property tax and insurance receipts,
- verifying the homeowner's homestead exemption via the property tax receipt or the tax rolls,
- verifying mail service or utility bills,
- community outreach or periodic inspections, or
- asking the homeowner to sign and submit an annual document certifying that the property is their principal residence.

Status:

- 02/19/10 - The Loan Servicing section has created a testing mechanism to verify if propety is homeowner's primary residence. Management developed a method to periodically test primary residency for HOME Program loans with primary residency requirements.
- 10/01/09 - Management will be meeting within the next few weeks to determine which loans are affected, what is the best way to verify this information and which division will be responsible for this task.
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto).

<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>
65	5/6/2009 Internal Audit	Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi The scope of this audit included the loan document processing and loan servicing functions	Px	05/06/09 7/31/2009
			Ix	06/11/09

Division: HOME

Section: HOME Production

Issue: Chapter 3-B
Condition: A certificate of completion or other evidence that verified the completion of construction was not included in eight of the 15 files (53.3%) reviewed.
Cause: Construction loans are forgiven based on a pre-determined date, rather than evidence that the construction is complete.
Criteria: To ensure loan provisions are satisfied, completion of construction should be documented prior to loan forgiveness.
Effect: Without some proof of the completion of construction, the Department could forgive a loan on a property before it is finished.
Recommendation: The Department should:
• ensure that the term of the unsecured equity loan is sufficient to guarantee completion of construction prior to the loan maturity date, and
• obtain and include in the loan servicing file the documentation verifying the completion of construction.

Status:

- 06/11/09 - To ensure loan provisions are satisfied and completion of construction is documented prior to loan forgiveness, the Division has a series of documents required for each loan file. The Department requires Contract Administrators undertaking construction activities execute a Construction Loan Agreement (CLA), which indicates a construction completion date and requires the Owner to acknowledge that before a final disbursement is made under the agreement, the Owner must provide a signed Affidavit of Completion, Form 11.27 the Department. In addition to the CLA, Division staff verifies construction completion of the housing unit by requiring Department Form 11.03-Final Inspection, which inspects housing conditions for compliance with applicable construction standards, specifications, and codes. This information is reviewed and provided as support documentation prior to the Final Draw Request Checklist--Form 16.26 and release of funds from the Department. Finally, in order to evidence both the construction completion date and loan maturity date, the Department executes a Deed of Trust and Promissory Note with households receiving construction assistance.
- 05/06/09 - Management agrees with the recommendations and will, in the next 90 days be revising the mechanism for forgiveness including documented assurances that the construction has been completed (Lora Myrick)

<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>
69	12/20/2006 Internal Audit	Energy Assistance Weatherization Assistance Program Subrecipient Monitoring Consideration of EA Weatherization Assistance program's subrecipient monitoring functions	Px	12/20/06 5/30/2007

Division: Community Affairs

Section: Energy Assistance

Issue: Section 6
Assess and Satisfy Information Needs

Px	12/20/06	5/30/2007
Px	03/02/07	5/30/2007
Px	04/23/07	5/30/2007
Px	06/26/07	7/30/2007
Dx	08/02/07	11/1/2007
Dx	04/22/08	
Dx	12/01/08	
Dx	06/12/09	
Dx	02/12/10	
Dx	07/14/10	

The management information system is adequate to track most of the significant milestones such as the planned monitoring visit date, actual monitoring visit date, monitoring report date, monitoring report response due date and actual receipt date, follow-up letter date, and close-out date (close-out letter). However, data fields have not been created to capture significant milestones relating to the delivery of the monitoring letter to the subrecipient's governing board chair and the subrecipient's response to the monitoring follow-up letter.

A text/memo field called Notes in the Monitoring Tracking System is used to capture the results of monitoring activities such as findings or conditions noted, required corrective actions, concerns and comments; however, the information recorded in the Notes field is unclear, not consistently posted, and, in instances, incomplete.

Findings were not posted to the monitoring tracking system for six of the eight monitoring files tested, monitoring results are not tracked to conclusion (actions taken and final resolution), and multiple areas of concern were noted throughout the monitoring checklists and files that were not posted to the monitoring tracking system.

Adequate information is necessary to ensure timely, efficient delivery of services. Tracking results of subrecipient monitoring activities is important to ensure findings noted are satisfactory resolved. The results of monitoring activities also provides meaningful information management can use to identify and prioritize risks for resources allocation purposes and to identify, plan and provide technical assistance. Significant milestone dates are important to help ensure satisfactory progress is being made toward achieving the goals and objectives of the subrecipient monitoring function.

The Department of Energy (DOE) requires that major findings from subgrantee monitoring visits and financial audits be tracked by the State to final resolution and recommends that the tracking record include, but not necessarily be limited to, findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. DOE also requires the State annually summarize and review each subgrantee's audit, program monitoring reports and findings for internal monitoring of State and subgrantee needs, strengths, and weaknesses and that the results of this annual monitoring be considered during annual planning and be available for the DOE Regional Offices to review during their State program monitoring visits.

Recommendation

Management should assess its information needs to ensure they are being adequately satisfied. In assessing its information needs, management should minimally:

- determine what information is needed to function and operate on a daily basis,
- evaluate major problems regularly encountered and assess how information can help solve the problems,
- categorize the major decisions program management must make and determine how additional information could help,
- identify various reporting requirements and related information needs,
- evaluate how information can improve the effectiveness of services provided,
- determine what kinds of information could enhance the program's efficiency, and
- assess information needs of others such as executive management and oversight and funding agencies.

Strategies, including computer and non-computer solutions, should be developed for capturing necessary data to operate effectively. Minimally, we recommend the information system be enhanced to capture the results of monitoring activities and track the status of monitoring findings to final resolution.

Regardless of strategies selected, we recommend the processes be formalized with the goal of:

- recording complete, accurate and timely information, which will require the incorporation of quality control procedures and edits,
- facilitating the monitors performing their day-to-day operating activities and responsibilities,
- facilitating management's review and consideration of current performance against operating goals and objectives, and
- satisfying the reporting requirements of oversight and funding agencies.

Status:

- 07/14/10 - The Information Systems Division is currently working on projects assessed as higher priority to the Department. The IS Division has set the incorporation of the ARRA contracts and reporting mechanism in the current Community Affairs contract system as a high priority.
- 02/12/10 - None provided.
- 06/12/09 - The Division of Information Systems is currently working on projects assessed as higher priorities to the Department. The IS Division has set the incorporation of the American Recovery and Reconstruction Act contracts and reporting mechanism into the current Community Affairs Contract System as a high priority.
- 12/01/08 - The Energy Assistance Section and the Information Systems staff have implemented a Monitoring Tracking System on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.
- 04/22/08 - The Energy Assistance Section and the Information Systems Division staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA and ISD staff will analyze this system for possible improvements.

Information Systems Division resources are currently allocated to projects assessed as higher priorities to the Department. Because of the focus on the Community Affairs Contract System project, deployment of the CDBG components of the Housing Contract System, and other high priority projects, an upgrade of the EA Monitoring Tracking System has not been presented to the Information System Steering Committee to be established as a new project. EA and ISD will submit an IS Project Request to the Steering in Committee for approval at its next meeting. The IS Project Request form will include estimates in technical and business team hours for development, testing, and deployment

- 08/02/07 - The Energy Assistance Section and the Information Systems staff have a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements that includes reports and increased narrative field size.
- 06/26/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.
- 04/23/07 - 04/23/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.
- 03/02/07 - The Energy Assistance Section and the Information Systems staff have implemented a tracking system on the TDHCA intranet. As currently designed, the system captures the pertinent dates, milestone dates, funding amounts, and provides a notes field for narrative text. EA staff will analyze this system for possible improvements.

<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>
12/20/06 -		During the planning of the Contract System being developed by the IS Division, the EA Section identified the daily operational needs of the Section. The Contract System, once complete, will help the Section gather information needed to comprehensively monitor the subrecipients and make effective management decisions. However, Management acknowledges that the Contract System will only provide information for review. The EA Section must provide timely updates, conduct quality control checks, and supplement additional information needs by updating the Intranet monitoring tracking system. The updated monitoring tracking system will assist management by providing information, documenting results, and summarizing desk and field monitoring reviews. The EA Section will coordinate with IS to update the Intranet monitoring tracking system to incorporate text fields to capture findings and the events that occur up to, and including resolution of, the findings. The updated system will be made available to all EA Program Officers, Project Managers, Section Manager, and to the Division Director. Upon coordination with IS staff, the updated system will be implemented after completion of the 2006 monitoring visits. In the interim, EA is using an Excel monitoring tracking system to track this information.		
71	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			Px	12/01/08 2/28/2009
Section: Community Services - CSBG			Ix	06/15/09
Issue: Chapter 6-E Standard Forms and Processes Should be Developed to Document the Sample of Expenditures and Client Files Reviewed During Monitoring				
There are no written procedures for documenting the shelters visited and expenditures reviewed by the program officers during on-site monitoring visits. In addition, the contract specialist performs reviews of monthly expenditures, but does not document the results of these reviews. Finally, there is no written procedure regarding how many client files should be reviewed during an on-site monitoring visit. For example, one program officer may review 12 client files while at another subrecipient, they may only review three client files.				
<p>Recommendation Community Services should:</p> <ul style="list-style-type: none"> • Develop written procedures and standard forms to document the shelters and expenditures reviewed during monitoring visits, • Maintain documentation to support the review of monthly performance and expenditure data, and • Develop written procedures regarding the minimum number of client files that should be reviewed in order to ensure consistency between subrecipient monitoring visits. 				
Status:				
06/15/09 -		ESGP Monitoring Instrument was revised to address identified areas. Additional questions and forms were added to document the review of performance and expenditure data. A minimum of 5% of the client files will be reviewed.		
12/01/08 -		The ESGP Monitoring Instrument and Monitoring SOP will be revised to address identified areas.		
06/11/08 -		Management will expand the Emergency Shelter Grants Program (ESGP) monitoring instrument to document the name and number of shelters visited and to integrate a standard form, including maintaining documentation, for use in reviewing expenditures. The CS Section will strengthen procedures to document a process for ensuring review of monthly performance and expenditure data. ESGP Program Officers currently review all client files for the sample months selected. The Monitoring SOP will be expanded to include a minimum percentage of client files that will be reviewed in order to ensure consistency between subrecipient monitoring visits.		

<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.

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
<u>Status:</u>		
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>
81	8/18/2008 State Auditor's O	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA Review of the Department's processes of managing Program bond payments, interest rate s		

Division: Bond Finance

Section: Not Selected

Px 08/18/08 3/31/2009
Px 11/07/08 3/31/2009
Ix 01/21/09

Issue: Chapter 1-A
The Department Could Improve Its Monitoring of Program Cash Flows and Its Program Master Servicer and Trustee

The Department effectively monitors its cash flows to ensure that actual revenues from mortgage payments are sufficient to meet debt service payments on a timely basis. However, the Department could improve its monitoring of cash flows by:

- More closely monitoring mortgage-backed securities to ensure that the purchase price is based on the total principal of the underlying mortgages contained in the securities.
- Reconciling mortgage payment data received from the Program master servicer and trustee to ensure the Program trustee is accurately accounting for Program funds.

The Department could also improve its monitoring of the Program master servicer by assessing risk and developing a monitoring plan to ensure the master servicer complies with Program requirements.

The Department should document its current procedures for issuing Program bonds. The Department has not documented its procedures for issuing bonds under the Program. Detailed, written policies and procedures are a key management control that helps the Department ensure that desired results are achieved and that current procedures are continued in the event of staff turnover.

Recommendations

The Department should improve its monitoring of cash flows by:

- Expanding its mortgage-backed security purchase reconciliation process to include verification of pool purchases by individual mortgage principal amounts.
- Reconciling mortgage payment data and bond redemption schedules received from Countrywide and The Bank of New York Mellon Corporation to ensure that Program bonds are redeemed timely.
- Developing a risk-based compliance monitoring process of its master servicer to ensure all Program requirements are met.
- Document its current policies, procedures, and control processes for issuing Program bonds.

Status:

01/21/09 - Bond Finance has developed and implemented Standard Operating Procedures for issuing single family bonds.

11/07/08 - TDHCA plans to conduct a compliance-related audit of loans funded in FY2008 before March 31, 2009. 1,990 Program loans were closed and funded in FY2008 and TDHCA plans to audit a sample of these loans. These sample loans will also be audited to ensure that they, coupled with other related loans, accurately match the purchase price of the underlying mortgage-backed security.

08/18/08 - The Department agrees to implement these recommendations as follows:

- The Department intends to reconcile the individual loan pools purchased to the principal amounts of the underlying mortgages to ensure pool purchase prices are accurate. To accomplish this, the Department anticipates contracting with an independent third party provider to perform program monitoring responsibilities.

Person Responsible: Director of Texas Homeownership Division

- In April 2008, a process was implemented to compare pool level repayment data provided by Countrywide to the financial data reported by Bank of New York on a monthly basis. To date, no discrepancies have been found. Additionally, effective June 2008, the semi annual Bank of New York supplemental payment schedules were reconciled to actual cash receipts for the previous six month period. The Department will continue these reconciliations semiannually.

Person(s) Responsible: Financial Services Team Leader; Bond Financial Analyst

In order to supplement and enhance the current agreement with Countrywide to perform a tax compliance review on each loan, the Department proposes to develop a risk-based compliance monitoring process of its Master Servicer in conjunction with an independent third party provider.

Person Responsible: Director of Texas Homeownership Division

- The Department intends to consolidate documentation on its current policies, procedures, and control processes by preparing a Standard Operating Procedure for issuing bonds. The Department currently maintains detailed bond transcripts, flow charts, calendars, board resolutions, applications and documents indicating compliance with all applicable laws and regulations.

Person Responsible: Bond Financial Analyst

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<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>
84	8/18/2008 State Auditor's O	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA Review of the Department's processes of managing Program bond payments, interest rate s	Px	08/18/08 11/30/2008
Division: Information Systems			Px	11/08/08 11/30/2008
Section: Not Selected			Ix	01/21/09

Issue: Chapter 3-A
The Department Has Not Configured Its Internal Accounting System to Maintain Audit Trails

Although the Department controls access to the MITAS System through the use of user logins and passwords, it has not enabled the audit trail feature in the MITAS System. The MITAS System is the Department's internal accounting system for the Program; it contains general Program loan information, but it does not contain specific confidential information of Program borrowers. The MITAS System is an accounting software package the Department purchased from the MITAS Group. Audit trails maintain a transaction and logging history for a system. Without audit trails, the Department cannot consistently identify who created a transaction or changed data or when the activity occurred. This weakness may hinder any Department efforts to identify and resolve the source of errors or unauthorized changes to its data.

If unauthorized changes are made, it may limit the Department's ability to identify the source of the change and accurately reconcile Program funds. The Texas Administrative Code requires agencies to maintain appropriate audit trails based on a documented security risk assessment.

Recommendation

The Department should perform a risk assessment to determine whether it should enable the audit trail function in the MITAS System and implement the resulting decision.

Status:

- 01/21/09 - The department completed the MITAS risk assessment on November 24, 2008, and implemented the resulting audit trail decisions.
- 11/08/08 - The Department is currently performing the Mitas risk assessment and expects to be complete with it and associated audit trail decisions by November 30, 2008. The Department has reconfigured the current server environment to allocate disk space for any required system logging, based on the risk assessment
- 08/18/08 - The Department agrees with the recommendation and will perform a risk assessment to decide whether it should enable the MITAS audit trail function. Because of resource limitations on the server hardware that currently houses MITAS, the Department will also upgrade the hardware to add the disk space required for increased system logging.

<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>
85	8/18/2008 State Auditor's O	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA Review of the Department's processes of managing Program bond payments, interest rate s	Px	08/18/08 11/30/2008
Division: Information Systems			Px	11/08/08 11/30/2008
Section: Not Selected			Ix	01/23/09

Issue: Chapter 3-C
The Department Has Not Conducted a Security Risk Assessment Since 2005

Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), recommends that state agencies adopt 24 security policies and other information technology security controls based on a documented security risk assessment. The Department performed an agency-wide risk assessment in 2005, including an assessment of the security over information systems and its controls over high-impact information system processes. The Department reviewed the controls over these high impact information system processes again in 2006. The Department did not document its reasons for not implementing an information security control and eight of the policies recommended in 1 TAC 202.25. Auditors communicated details of these system security weaknesses to Department management. The Department could improve its information technology security by conducting a security risk assessment and addressing any weaknesses it identifies.

Recommendation
The Department should perform, document, and implement (as appropriate) a security risk assessment.

Status:

- 01/23/09 - On January 23, 2009, the Department completed an updated security risk assessment which addresses controls listed in Title 1, Texas Administrative code, Section 202.25. The risk assessment documents existing and recommended information security policies and other controls and established a target date for implementing each recommendation.
- 11/08/08 - The Department is in the process of performing an updated security risk assessment, which addresses controls listed in Title 1, Texas Administrative Code, Section 202.25.
- 08/18/08 - The Department agrees with the recommendation and has created a security policy upgrade plan which includes the step of performing an updated security risk assessment.

<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>
86	8/18/2008 State Auditor's O	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA Review of the Department's processes of managing Program bond payments, interest rate s	Px	08/18/08 10/31/2008

Division: Bond Finance

Section: Not Selected

Issue: Chapter 4
The Department Does Not Include Statutorily Required Language in All Program Contracts

The Program's contracts do not contain the statutorily required language granting the State Auditor's Office audit authority and access to records. These contracts include those with bond counsel, The Bank of New York Mellon Corporation, and Countrywide Home Loans, Inc. Contracts that do not contain this statutorily required language may limit the State's ability to provide effective oversight of contract terms, contractors, and the use of state funds. Access to records is an essential element of auditing. Texas Government Code, Section 2262.003, requires that all state agency contracts contain contract terms specifying that:

- The State Auditor may conduct an audit of any entity receiving funds from the State directly or indirectly under the contract.
- An entity subject to audit by the State Auditor must provide the State Auditor with access to any information that the State Auditor considers relevant to the audit.

These contract language requirements were effective as of September 1, 2003.

Recommendations

The Department should comply with statutory requirements by:

- Amending all current contracts to include terms granting the State Auditor audit authority and access to records.
- Including in all future contracts terms granting the State Auditor audit authority and access to records.

Status:

07/06/10 - TDHCA has added this provision to contracts prepared internally. The Office of the Attorney General prepares all outside counsel contracts and will add this provision to their form. Current bond counsel contract with Vinson & Elkins does not contain this provision but will be added upon renewal in 2011.

The OAG advised that this provision has been a complicated problem. Their current form doesn't include thses provisions because almost all outside counsels objected to it and refused to sign with the provision included. The OAG discussed the matter with the SAO. The decision was made to add the language into future forms and the SAO will field calls if outside counsels object again.

01/21/09 - Amend existing contracts as they are renewed.

11/07/08 - Existing contracts will be amended when they are renewed and all future contracts will contain the language to allow the State auditors office authority and access to records.

08/18/08 - The Department agrees to comply with statutory requirements relating to program contracts. The Department will review and amend all contracts to include terms granting the State Auditor audit authority and access to records as contracts are renewed. The Department has already incorporated Section 2262.003 of the Texas Government Code in the Request for Proposal for Underwriting Services and Request for Proposal for Master Servicer to be presented to the Board at the September 4, 2008 meeting, which included terms granting the State Auditor audit authority and access to records.

<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>
111	8/18/2008 State Auditor's O	Audit of the Single Family Mortgage Revenue Bond Program at TDHCA Review of the Department's processes of managing Program bond payments, interest rate s	Px	08/18/08
			Ix	11/08/08

Division: Information Systems

Section: Not Selected

Issue: Chapter 3-D
The Department Does Not Conduct Tests of Its Disaster Recovery Plan in a Timely Manner

The Department conducted a test of its disaster recovery plan in June 2008. Prior to that time, the Department had not conducted a complete test since January 2006. Title 1, Texas Administrative Code, Section 202.24, and Department policy requires an annual test of the disaster recovery plan. A disaster recovery plan outlines steps staff should take to secure or recover information when a natural disaster or other business disruption prevents normal operations. Conducting timely tests of its disaster recovery plan can help the Department decrease its risk of losing data in the event of a disaster and ensure that the Department's mission-critical functions can be resumed as quickly as possible.

Recommendation

The Department should conduct a test of its disaster recovery plan at least annually and when major changes are made to the plan.

Status:

- 11/08/08 - The Department will conduct complete tests of its disaster recovery plan on an annual basis and when major changes are made to the plan
- 08/18/08 - The Department agrees with the recommendation and will conduct complete tests of its disaster recovery plan on an annual basis and when major changes are made to the plan. The Department notes that although a complete test of its disaster recovery plan was not completed in fiscal year 2007, it carried out disaster recovery testing activities such as restoring databases and files from backup tapes and evaluating backup scripts and schedules. Additionally, the Department's Disaster Recovery Team engaged in planning activities for the June 2008 test at intervals throughout fiscal year 2008.

<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>
112	6/23/2009 Department of H	Texas Community Services Block Grant Program (CSBG) State Assessment Review Review of the fiscal and programmatic procedures of the CSBG State agency	Nx	07/27/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 1

- The State needs to comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSSG funding stream and expenditures in accordance with Federal regulations.
- We recommend the State:
 - o1.1 Comply with fiscal controls in accordance with State and Federal regulations and submit the 269's in accordance with 45 CFR §92.40, §92.41, 96.14 and §96.30(b)(4).
 - o1.2 Revise and/or implement the State's Fiscal policy and procedures to improve fiscal controls for CSBG funding.
 - o1.3 Provide a copy of the State policy regarding indirect and administrative cost(s) posted to the General Ledger.
 - o1.4 Follow the State's policies for the disbursement of CSBG funds.

Status:

07/27/09 - Recommendation 1.1: The State submitted all FSRs for program year 2006 in compliance with 45 CFR, Sections 92.40, 92.41 and 96.30 (b)(4). The first and second reports were submitted December 20, 2006, and December 12, 2007. The final report was submitted December 16, 2008. Copies of the SF-269's are attached.

Recommendation 1.2-1.4: The State respectfully disagrees with the assertion that it does not comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSBG funding stream and expenditures in accordance with Federal regulations. The basis for this response is as set forth in on opinions rendered by independent audit firms such as the Texas State Auditor's Office in conjunction with KPMG and Deloitte and Touche and also by the TDHCA Internal Auditor.

In addition to these opinions, the State is confident in its compliance with all Fiscal and Governance operations. A comprehensive review would reveal that the State goes through a rigorous oversight process. This process begins with a Federal application process resulting in the issuance of the grant award. The process continues through a State Legislative Budget Process that further provides appropriation authority of these funds to TDHCA. The Legislature requires extensive reporting of performance measures and financial data regarding all federal funds made available to the State. The Governor subsequently signs the biennial appropriations bill into law, and TDHCA supplements this process by implementing extensive fiscal and programmatic controls to ensure that it meets State and Federal requirements. TDHCA maintains PeopleSoft as its system of record to track Federal Program Activity. The system is structured to identify each grant separately and to comply fully with GASB and GAAP. The TDHCA utilizes General Ledger, Accounts Payable, Grant Module, and Purchase Request workflow. It fully interfaces with the State Comptroller and integrates with the Uniform Statewide Payroll System. These modules track grant activity and ensure that a clear trail exists to track each transaction down to the transaction level. Documentation is maintained in permanently scanned repository. Payroll records are supported by timesheets that are reconciled on a monthly basis. There are also further controls established such as drawdown logs to ensure compliance with specific grant requirements. The State also operates under an approved indirect cost rate agreement for recovery of its indirect administrative costs. This agreement is reviewed, reconciled and approved by the U.S. TDHCA of Housing and Urban Development (HUD) on a yearly basis. Please refer to the attached Indirect Cost Rate Agreement dated June 8, 2007. A series of documents to further document our contention of sound fiscal controls and practices are available for review. These documents include a Legislative Appropriations Request (LAR); the Bill that was adopted by the Governor; Internal Operating Budget approved by the TDHCA Board; Indirect Cost Rate Agreement approved by the U.S. TDHCA of Housing and Urban Development; General, Payroll, Travel, Accounts Payable, and Grant policies and procedures.

The State would welcome an opportunity to clarify any misconception regarding the State's ability and commitment to meet any and all Fiscal and Governance standards.

<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>
113	6/23/2009 Department of H	Texas Community Services Block Grant Program (CSBG) State Assessment Review Review of the fiscal and programmatic procedures of the CSBG State agency	Px	07/27/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 2
 •The State's criterion were not adequate for the issuance of performance awards to eligible entities and CAA's using CSBG funds during Fiscal year 2006
 •We recommend the State:
 o2.1 Provide OCS with the revised policies and procedures to specify the usage of CSBG funds for performance awards

Px 07/27/09
 Px 09/29/09 4/1/2010
 Nr 03/01/10
 lx 07/13/10

Status:

07/13/10 - On 3/29/2010 the Department received the final report of the U.S. Department of Health and Human Services (USHHS) assessment of the Community Services Block Grant conducted February 23-27, 2009. The Department responded on May 7, 2010. The response to Finding #2 is included on page 5 of 7 of the response. The Department is awaiting final response, if any from USHHS.

At the last meeting of the CSBG Performance Awards Advisory Committee on December 18, 2009, the Committee recommended an indefinite suspension of the CSBG performance awards. Therefore, no further action is required. If the Committee recommends and the Department's management implements a process to recognize high performing CSBG eligible entities, a standardized process will be developed and presented to the Board.

03/01/10 -

09/29/09 - Beginning in 2008. the Department did not award any CSBG Performance Awards in order to review the process and receive input from CSBG eligible entities on how to strengthen the process and award exemplary services and projects operated by the CSBG network. A CSBG Advisory committee met in December 2008 to discuss this process and will meet again in 2010 and provide recommendations regarding the performance awards process.

07/27/09 - Recommendation 2.1: TDHCA has a process that includes criterion for awarding CSBG Performance Awards for several years. The process for the 2006 awards was communicated to CSBG eligible entities on June 18, 2004, in CSBG Memorandum #04-12.4, which is included in this response.

The State's authority to utilize CSBG discretionary funds for the performance awards is based on 42 USC 9907(b)(F), granting the State authority to utilize the remainder of the funds to support Statewide activities supporting innovative programs and activities conducted by community action agencies to eliminate poverty and to promote self-sufficiency. TDHCA utilized the 5% State discretionary funds to grant the performance awards in order to promote and advance efforts to assist CSBG eligible clients to attain self-sufficiency. The Department's FFY 2006 and 2007 Intended Use Report, submitted with the FFY 2006 and 2007 State Plan, established a goal of assisting 2,000 persons to achieve incomes above the poverty level and committed to conferring performance awards to CSBG eligible entities that met certain criteria and submitted performance documentation of such.

The attached CSBG Memorandum describes the criteria for an organization to be eligible to apply for a performance award. Additionally, organizations that reported persons transitioned out of poverty were required to submit information which included the name of the head of household, the income of the household during the initial visit, the first month when the household income was above 125% of the federal poverty guidelines, and 90 days after maintaining an income above 125% of the federal poverty guidelines. The Department compared the number of persons transitioned to the numbers which had been reported in the CSBG monthly performance reports. Program officers, monitors, were also required to review documentation related to such during on site monitoring reviews.

While the Department did not issue specific policy and procedures to CSBG eligible entities on the use of CSBG Performance Awards, CSBG subrecipients who were granted a performance award were informed that the expenditure of the funds had to meet requirements of the OMB Circulars and of the CSBG Act. During on-site monitoring reviews, program officers reviewed expenditures and related documentation verifying the use of CSBG funds.

Beginning in 2008, the Department did not make any CSBG Performance Awards in order to review the process and receive input from CSBG eligible entities on how to strengthen the process and award exemplary services and projects operated by the CSBG network. A CSBG Advisory Committee was appointed by the Department's Executive Director to provide the feedback. The committee met in December 2008 and will continue to meet during the next year to discuss a performance award process. If the Department reinstates the CSBG Performance Award process, the Department will once again develop policies and procedures for this process and ensure that this includes criteria for issuing performance awards as well as guidance to CSBG eligible entities on the use of the CSBG funds issued as performance awards.

<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>
114	6/23/2009 Department of H	Texas Community Services Block Grant Program (CSBG) State Assessment Review Review of the fiscal and programmatic procedures of the CSBG State agency	Px	07/27/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 3

- The State did not have processes to ensure that eligible entities and CAAs inform and/or refer custodial parents to Child Support services as required by CSBG statute.
- We recommend the State:
 - o3.1 Develop and implement procedures according to the statute for referrals to the local child support office.
 - o3.2 Develop and implement procedures that require CSBG grantees and subgrantees conducting case management to document referrals to local child support offices.

Status:

Px 07/27/09
Px 10/02/09 12/31/2009
Nr 03/01/10
Px 07/13/10 9/30/2010

07/13/10 - On 3/29/2010 the Department received the final report of the U.S. Department of Health and Human Services (USHHS) assessment of the Community Services Block Grant conducted February 23-27, 2009. The Department responded on May 7, 2010. The response to Finding #3 is included on page 6 of 7 of the response. The Department is awaiting final response, if any from USHHS.

TAC Chapter 5, Subchapter B, CSBG, will be revised to address this issue. The CSBG monitoring instrument has been revised to address the requirement for CSBG eligible entities to refer custodial parents to Child Support Services.

03/01/10 -

10/02/09 - The Department is in the process of drafting State rules, to be filed under the Texas Administrative Code. Related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services. Community Services anticipates that the rules will be revised by 12/09 .

07/27/09 - Recommendation 3.1: CSBG eligible entities inform persons seeking CSBG assistance about the services available through the Texas Attorney General's Office for the collection of child support. The Department has revised the 2009 CSBG Monitoring Instrument to add specific questions regarding the requirements related to informing custodial parents in single-parent families about the availability of child support services and refer eligible parents to the child support offices.

The Department is in the process of drafting State rules, to be filed under the Texas Administrative Code, related to the requirement for eligible entities and CAAs to inform and/or refer custodial parents to Child Support services.

Recommendation 3.2: TDHCA is in the process of drafting State rules, to be reflected under the Texas Administrative Code when adopted, relating to the requirement that require CSBG grantees and subrecipients conducting case management to document referrals to local child support offices. The 2009 CSBG Monitoring Instrument was revised to monitor compliance with the CSBG Act in regards to this issue.

<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>
115	6/23/2009 Department of H	Texas Community Services Block Grant Program (CSBG) State Assessment Review Review of the fiscal and programmatic procedures of the CSBG State agency	Ix	07/27/09

Division: Community Affairs

Section: Community Services - CSBG

Issue: Finding 4
 •The State needs to ensure that all eligible entities and CAA's are in compliance with the income eligibility requirements for emergency services.
 •We recommend the State:
 o 4.1 Ensures eligible entities and CAA's verify income eligibility requirements for CSBG funded emergency service programs.

Status:

07/27/09 - Recommendation 4.1: TDHCA does require that CSBG eligible entities document and verify that persons receiving CSBG funded emergency services are income eligible. TDHCA requires that in cases where proof of income is unavailable, a Declaration of Income Statement form be completed and maintained in the applicable client level file. The form requires that the client certify the income of all household members without documentation of income. The program officers review client eligibility documentation in the client files during on site monitoring reviews.

116	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs		
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Division: Asset Management

Section: Compliance

Issue: Finding #2 Review of the multifamily portfolio report indicated there are numerous projects that are out of compliance with the HOME Program requirements under §92.503(b). Some of the deficiencies/violations could have serious consequences resulting in the state being requested to repay the full amount of the HOME funds invested if the projects cannot be brought into compliance within a reasonable period of time.

Required Corrective Action: The state must provide a detailed report for all of the properties listed on the enclosed report. Report must be provided on or before June 20, 2009. The state must then provide a quarterly report beginning on October 10th and thereafter, on or before the 10th of the month for each subsequent quarter beginning January 10th, 2010, until the projects have been brought into compliance.

Status:

- 06/29/10 - Since the last quarter, 12 more HOME properties have resolved all of their compliance issues. Staff continues to work with owners and report to HUD.
- 01/25/10 - Since the last quarter 24 HOME properties have cleared all of their noncompliance issues. Staff continues to work with HOME properties on corrections and reports to HUD regularly.
- 06/30/09 - The Department is working to bring about restored compliance and achieve required affordability through a combination of thorough and regular monitoring, enhanced technical assistance, the initiation of the administrative penalty process, and informal conferences.

<u>Status</u>	<u>Target Date</u>
Px	06/30/09
Tx	01/25/10
Px	06/29/10

<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>
117	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs		

Division: Financial Administration

Section: Not Selected

Px 06/30/09
Ix 09/17/09
Ix 09/17/09

Issue: Finding #3 The HOME regulations found at 24 CFR 92.207(a) are very specific that HOME administration funds may only be used for administration of HOME activities. The information provided by TDHCA on March 30, 2009, pertaining to HOME index 00880 notes that \$209,380.61 of HOME administration funds were used to offset FEMA Program shortages. The state was advised that this action was neither appropriate nor acceptable.

Required Corrective Action: TDHCA must immediately cease using HOME funds to pay the shortages of another program to provide HUD with assurances that it has done so. It must review its accounting records for the period January 1, 2005 to current and provide HUD with information listed on report (pg. 27). In addition, TDHCA must calculate the interest that the U.S. Treasury would have earned on the funds from the date the funds were drawn until the date the funds were disbursed for eligible HOME program expenses. The methodology used to calculate the interest, along with a copy of the wire transfer providing evidence of the transfer of interest to HUD must accompany the state's response.

Status:

09/17/09 - In reference to the interest calculation on the HOME funds used to offset FEMA expenses that did not include \$209,380.61 of HOME funds that were drawn on September 19 and October 2, 2008, the initial calculation included \$7,018.87 with interest but did not include \$202,361.74.

Attachment A-1 (FEMA) includes \$175,974.79 for FEMA October 2008. The \$7,018.87 on Attachment A-1 (a) identifies the details of FEMA October 2008 activities totaling \$175,974.79.

Attachment A-2 (APS II Benefits) identifies a revised calculation relative to the \$202,361.74 which results in interest of \$1,354.14.

In addition, TDHCA recalculated the interest for FEMA (Attachment A-1) and CDBG 1/11 (Attachment A-3) for periods up to September 7, 2008 which resulted in additional interest of \$73.17.

Attachments A-4 through A-6 includes tables for FEMA, CDBG 1, and CDBG 2 that provides exact dollar amount of HOME funds used to offset shortfalls, the dates funds were disbursed from the local HOME account (shortfalls), the dates the funds were returned to the HOME Program and the dates funds were disbursed for eligible HOME activities. A warrant for the net amount of interest owed of \$1,423.75 is included in this response.

09/17/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.3. The Financial Administration Division responded to this finding in the Department's response to HUD dated September 17, 2009

<i>Issue #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>
06/30/09 -		<p>In the aftermath of Hurricane's Katrina and Rita, the Governor designated the Department as the lead agency for housing. One of the primary responsibilities of the Department was to provide immediate aid to those affected.</p> <p>Weeks later, the Governor declared the situation a Federal Disaster. This declaration granted the Department eligibility to receive emergency funding from the U.S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Administration (FEMA). To receive these funds, the Department was instructed to begin pre-award activities such as planning, public hearings, development of action plans and coordination with other state/federal/local agencies and organizations. During this time, the Department accumulated expenses associated with the pre-award activities. With no dedicated state funding, the Department began experiencing cash flow shortfalls. As the Department awaited the release of federal disaster funds, it was necessary to pay for staff time with traditional federal program funds.</p> <p>A review of the records indicates that HOME funds were used to offset shortfalls in various periods. A cash balance worksheet that summarizes the shortages and time periods in which funds were drawn and disbursed is enclosed (Attachment C). The worksheet also includes a methodology used to calculate interest due to the U.S. Treasury. (A warrant for \$6,027.84 is attached.) The Department also provides assurances that it will comply with the provisions set forth in 24 CFR §92.207(a).</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>
117	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs		

Division: Financial Administration

Section: Not Selected

Px 06/30/09
Ix 09/17/09
Ix 09/17/09

Issue: Finding #3 The HOME regulations found at 24 CFR 92.207(a) are very specific that HOME administration funds may only be used for administration of HOME activities. The information provided by TDHCA on March 30, 2009, pertaining to HOME index 00880 notes that \$209,380.61 of HOME administration funds were used to offset FEMA Program shortages. The state was advised that this action was neither appropriate nor acceptable.

Required Corrective Action: TDHCA must immediately cease using HOME funds to pay the shortages of another program to provide HUD with assurances that it has done so. It must review its accounting records for the period January 1, 2005 to current and provide HUD with information listed on report (pg. 27). In addition, TDHCA must calculate the interest that the U.S. Treasury would have earned on the funds from the date the funds were drawn until the date the funds were disbursed for eligible HOME program expenses. The methodology used to calculate the interest, along with a copy of the wire transfer providing evidence of the transfer of interest to HUD must accompany the state's response.

Status:

09/17/09 - In reference to the interest calculation on the HOME funds used to offset FEMA expenses that did not include \$209,380.61 of HOME funds that were drawn on September 19 and October 2, 2008, the initial calculation included \$7,018.87 with interest but did not include \$202,361.74.

Attachment A-1 (FEMA) includes \$175,974.79 for FEMA October 2008. The \$7,018.87 on Attachment A-1 (a) identifies the details of FEMA October 2008 activities totaling \$175,974.79.

Attachment A-2 (APS II Benefits) identifies a revised calculation relative to the \$202,361.74 which results in interest of \$1,354.14.

In addition, TDHCA recalculated the interest for FEMA (Attachment A-1) and CDBG 1/11 (Attachment A-3) for periods up to September 7, 2008 which resulted in additional interest of \$73.17.

Attachments A-4 through A-6 includes tables for FEMA, CDBG 1, and CDBG 2 that provides exact dollar amount of HOME funds used to offset shortfalls, the dates funds were disbursed from the local HOME account (shortfalls), the dates the funds were returned to the HOME Program and the dates funds were disbursed for eligible HOME activities. A warrant for the net amount of interest owed of \$1,423.75 is included in this response.

09/17/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.3. The Financial Administration Division responded to this finding in the Department's response to HUD dated September 17, 2009

<u>Issue #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>
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06/30/09 - In the aftermath of Hurricane's Katrina and Rita, the Governor designated the Department as the lead agency for housing. One of the primary responsibilities of the Department was to provide immediate aid to those affected.

Weeks later, the Governor declared the situation a Federal Disaster. This declaration granted the Department eligibility to receive emergency funding from the U.S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Administration (FEMA). To receive these funds, the Department was instructed to begin pre-award activities such as planning, public hearings, development of action plans and coordination with other state/federal/local agencies and organizations. During this time, the Department accumulated expenses associated with the pre-award activities. With no dedicated state funding, the Department began experiencing cash flow shortfalls. As the Department awaited the release of federal disaster funds, it was necessary to pay for staff time with traditional federal program funds.

A review of the records indicates that HOME funds were used to offset shortfalls in various periods. A cash balance worksheet that summarizes the shortages and time periods in which funds were drawn and disbursed is enclosed (Attachment C). The worksheet also includes a methodology used to calculate interest due to the U.S. Treasury. (A warrant for \$6,027.84 is attached.) The Department also provides assurances that it will comply with the provisions set forth in 24 CFR §92.207(a).

118	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs
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	<u>Status</u>	<u>Target Date</u>
	Px	06/30/09 8/31/2009
	Ix	08/18/09
	Ix	09/30/09

Division: Financial Administration

Section: Not Selected

Issue: Finding #4 The state is not accounting for recaptured funds separately from its program income, as required by 24 CFR 92.503(c), which requires recaptured funds to be deposited in the participating jurisdiction's HOME Investment Trust Fund local account. Instead, recaptured funds are being accounted for as program income.

Required Corrective Action: The State must provide detailed spreadsheets for the period January 1, 2005 to current that clearly distinguish the amount the state received as recaptured funds from the amount the state received as program income.

Status:

- 09/30/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.4. The Financial Administration Division responded to this finding in the Department's response to HUD dated August 18, 2009.
- 08/18/09 - (Per HUD response) In our last correspondence dated June 30, 2009 in which we responded to our Audit Report Findings, specifically Finding No.4, we noted that the Department established accounting procedures to adequately separate program income from recaptured funds. At that time, the Department began reconciling activity from January 1, 2005 to current to determine the amount the Department received as recaptured funds from the amount the state received as program income. The results of our reconciliation identified \$2,128,602.77 as our recaptured program income.
- 06/30/09 - The Department recognizes that in accordance with 24 CFR §92.503 (c) recaptured funds must be deposited in the participating jurisdiction's HOME Investment Trust Fund local account. Since the monitoring visit, the Department has established accounting procedures to adequately separate the program income from the recaptured funds in its accounting records. The Department is in the process of reconciling activity from January 1, 2005, to current to determine the amount the Department received as recaptured funds from the amount the state received as program income. The State will submit its reconciliation and documentation no later than August 31, 2009.

<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>
119	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs		

Division: Financial Administration

Ix 06/30/09

Section: Not Selected

Issue: Finding #5 The information in the state's contract system did not match the information in the general ledger for the time period reviewed. One item in the amount of \$455 was found on the Loan Processing System and not on the general ledger; fifteen items totaling \$71,878.05 were found on the General Ledger System and not on the Loan Processing System.

Required Corrective Action: The state must reconcile the two systems for the period January 1, 2005 to current. Also, the state must establish a process to reconcile the contract system to the general ledger on a periodic basis. The process must include the frequency of the reconciliation and the responsible party and provided to HUD. Also, the state must implement a procedure to provide the Fort Worth Field Office a copy of the wire transfer information regarding funds being returned to its line of credit.

Status:

06/30/09 - In accordance with 24 CFR §85.20 (a)(2) the Department has completed a repayment reconciliation from January 1, 2005, to current (Attachment D). A procedure has been established to reconcile the contract system quarterly to the general ledger. This process compares the contract system query to the general ledger query. The reconciliation is managed by the fiscal and program areas. The Department is also implementing a procedure to provide HUD with a copy of the warrant pertaining to the funds being returned to its line of credit.

<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>
120	4/17/2009 HUD	Affordable Housing and Financial Monitoring and Technical On-site monitoring of the state's affordable housing programs		

Division: Program Services

Section: Not Selected

Px 06/30/09
Px 09/17/09
Ix 09/25/09

Issue: Finding #6 Questioned and unsupported costs in the amount of \$152,494.67, as well as other discrepancies, were noted. HOME regulations found at 24 CFR 92.508 require the establishment and maintenance of sufficient records.

Required Corrective Action: Within 30 days from the date of this letter, the state must either reimburse the ineligible and unsupported costs, or provide support documentation for the costs that can be supported and reimburse the unsupported costs. Additionally, the state must report on the results of its comparison of the preliminary settlement statements to the final settlement statements for the Luling and Highland Lakes activities and include any unsupported costs in the reimbursement.

Status:

- 09/25/09 - A supplemental letter to the second HUD Response letter was sent to HUD on 09/25/2009. The supplemental letter included support documentation for program costs identified in the HUD Monitoring Letter. The documentation is currently under review and staff is awaiting further comments or questions from HUD staff.
- 09/17/09 - This activity has now been closed in IDIS. The HOME contract file #535247 was recently located with the draw documentation for activity #13530, 6th Street Avenue G in Olton, Texas. Unfortunately, documentation for only 6 of the 8 draws can be confirmed. These draws total \$113,080.79 of the total \$149,031.067 drawn. The Department is continuing its efforts to locate the missing documentation for the remaining two draws in archives, which represent an amount of \$35,950.88.
- 06/30/09 - The Department would like to make note of the fact that HOME staff has changed its process to address this issue. Currently, when table funding, the amounts reflected on the preliminary settlement statement is what is used to disburse funds and the final settlement statement is reviewed to determine whether excess funds have been disbursed and if there have been, adjustments are made accordingly on the next draw request.

<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>
122	12/18/2008 Deloitte and Tou	Report to Management - year ending August 31, 2008 Annual independent audit of the Department's general purpose financial statements	Px	09/30/09 10/31/2009
			Px	12/18/09 1/31/2009
			Ix	02/16/10

Division: Information Systems

Section: Not Selected

Issue: Observation: The PeopleSoft support team makes changes to financial data stored in the Oracle database after receiving approvals through email by business users. Such requests are entered in Track-It to ensure they are completed timely. Changes made to the production database include SQL queries which update and delete data. Such changes are made through individual user identification to establish accountability on the system. However, such database changes are not logged systematically through individual user accounts to ensure only changes intended by management are made to the production database.

Recommendation: All requests by the business to allow IT support to make data changes should be written, maintained and monitored for appropriateness.

Status:

- 02/16/10 - The reporting mechanism that the Director of Information Systems uses to monitor the direct database change log was put into place in early November 2009. The report can now be run at any time and with any date range to produce a list of direct database changes made to the PeopleSoft Financials 8.8 production environment.
- 12/18/09 - In addition to the current process of documenting Financial Administration (FA) Division management or team leader approval in advance of performing direct database updates in PeopleSoft as requested by FA management and staff, the Information Systems Division will implement a process to log direct database changes made through the individual system accounts of the PeopleSoft support team. The Director of Information Systems will monitor these logs for appropriateness.
- 09/30/09 - The Information Systems Division implemented the direct database change log for PeopleSoft in August 2009. The reporting mechanism that the Director of Information Systems will use to monitor the log will be put into place by October 31, 2009.

<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>
123	12/18/2008 Deloitte and Tou	Report to Management - year ending August 31, 2008 Annual independent audit of the Department's general purpose financial statements	Px	12/31/2008
			Ix	09/30/09

Division: Information Systems

Section: Not Selected

Issue: Observation: Policies have been created to govern network and systems software change management. Individuals have been granted authority to approve, test and deploy their own changes. Access to implement such changes has been limited to very few personnel. However, such changes are not formally reviewed by management to ensure they are consistent with management's intentions.

Recommendation: Changes made to network and operating systems software should be documented. Documentation should evidence testing and approvals of changes made.

Status:

09/30/09 - The Information Systems Division added the IS System Changes control to SOP 2264.14 in January 2009.

12/18/08 - In December 2007, management updated SOP 2264.14, "Network Change Procedures," to clarify the levels of authorization that the Director of Information Systems has granted to TDHCA's Network Administrator, Unix Administrator, and Database Administrator and to establish the Unix, Windows, and Cisco Change Log. The Information Systems Division has been in compliance with the updated version of SOP 2264.14 since that time. By December 31, 2008, management will add an additional control to SOP 2264.14 requiring that employees in these positions email a description of the planned change to a new distribution list named "IS System Changes" prior to initiating certain types of network and operating systems software changes identified in the SOP. The Director of Information Systems will be a member of this distribution list. Email sent to this distribution list will also be posted to a public folder to which all division employees will have read access.

<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>
124	12/18/2008 Deloitte and Tou	Report to Management - year ending August 31, 2008 Annual independent audit of the Department's general purpose financial statements	Px	12/18/08
			Ix	10/01/09

Division: Financial Administration

Section: Not Selected

Issue: Observation: GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments was also issued and is effective for the Department beginning in fiscal year 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value.

Recommendation: Begin reviewing GASB Statement Nos. 49, 50, 51, 52 and 53 and their implications to determine the potential impact on the TDHCA's financial statements.

Status:

- 10/01/09 - Management has reviewed GASB Statements Nos. 49, 50, 51, 52 and 53 and will reflect their impact, if any, in the annual financial statements that will be issued for fiscal year ending August 31, 2009.
- 12/18/08 - Management will proactively review GASB Statement Nos. 49, 50, 51, 52 and 53 for their potential implications for TDHCA's financial statements.

<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>
125	3/3/2009 State Auditor's O	State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ende Federal Portion Audit of the State's basic financial statements and a review of significant	Px	03/03/09 3/31/2009
			Ix	09/30/09

Division: Information Systems

Section: Not Selected

Issue: Condition:

- Genesis – Six users have administrative privileges that allow them the ability to have access to application and database administrator roles and to migrate application code changes into production. In addition, two of these six users are developers. The other four users are user account administrators for Genesis.
- CACS – Two developers have application administrative access rights.
- PeopleSoft – One developer/analyst has database administrator privileges, application administrator rights, and access to migrate code changes into production. TDHCA's Director of Information Systems performs a quarterly review of a PeopleSoft report that includes all changes made to the application. However, the developer/analyst has the ability to alter the report with his high-privilege access rights which are assigned so he can migrate changes into production.
- At the network level, one developer has domain administrative privileges.

Cause: In each system, duties are not appropriately segregated between the application administrators, database administrators, and developers. Also specific developers have access to move changes into the production environment of the individual systems.

Criteria: Community Affairs contract systems for monitoring contracts should allow only the appropriately authorized individuals access to update records.

Effect: Users with inappropriate rights to modify applications create a risk of unauthorized changes to the production environment and/or risks of unintentional errors or omissions in processing.

Recommendation: Duties should be segregated between application administrators, system administrators, database administrators, and developers. In addition, developers who have programming responsibilities should not have access to migrate changes to production. In cases where such condition is necessary, management should implement a monitoring control to help ensure that changes implemented to production are appropriate. Privileged access should only be granted to developers in the test environment. If monitoring controls such as report reviews are put in place, developers should not have access to modify the report.

Status:

09/30/09 - In April and May 2009, the Information Systems Division completed each change to access described in the Corrective Action Plan section of the March 2009 status update.

03/03/09 - Summary of Existing Processes and Monitoring Controls – Because of the size of the Department's Information Systems Division (ISD) and the number of systems supported, management has assigned some ISD employees responsibilities that cross between developer, application administrator, and database administrator roles to provide for efficient delivery of services in the support of production systems and to ensure adequate backup for critical ISD functions. Additionally, in the legacy Genesis system, technology limitations prevent the Department from systematically separating responsibilities between these roles.

Over the past five years, the Department has implemented both manual and systematic processes and monitoring controls for tracking software changes to compensate for the risks posed by advanced levels of systems access. These controls include a series of standard operating procedures governing software, database, and network changes, including a requirement to document approval of direct database updates requested by management within the Department's help desk system; the Software Change Acceptance form; the Object Change Report for PeopleSoft; and the Concurrent Versioning System (CVS), which systematically tracks all software changes promoted to the production environment for the new Community Affairs Contract System (CACS). In addition to these controls, the Department completely segregates developer access between front-end programmatic systems, such as Genesis and CACS, and the Department's general ledger system, PeopleSoft.

Corrective Action Plan – In order to strengthen segregation of duties and further reduce the risk of unauthorized changes to production environments, the Department will remove application administrator access from the two CACS developers and application and database administrator access from the PeopleSoft developer/analyst noted in the finding. While reducing the risks of unauthorized changes, removing these levels of access will pose some production support risks for PeopleSoft, because of limited backup.

Regarding Genesis, the Department will reduce the number of user account administrators from four to two. However, because of the technical limitations mentioned above and because the Department will retire the Genesis version of the Community Affairs Contract System from all but historical inquiry in April 2009, the Department will continue to grant administrative privileges to the two employees who both develop and support remaining Genesis applications, which are administrative in nature. Management will continue to apply manual monitoring controls to the Genesis environment.

Finally, the ISD employee identified as a developer with Windows domain administrative privileges performs no development duties in the Windows environment. The privileges are assigned for backup ISD Network and Technical Support section purposes. Because these privileges provide support benefits to the Department and there is no crossover between developer and administrative responsibilities in this environment, management does not plan to remove these privileges.

<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>
126	HUD-OIG	Texas Disaster Supplemental II - FW 09 0013 January 10, 2007, through April 3, 2009 - The universe consisted of the electronic data recei	Nx	09/21/09

Division: Disaster Recovery

Section: Not Selected

Issue: Condition: Disaster Recovery's action plan did not require homeowner's insurance on properties reconstructed or rehabilitated with Supplemental I funds, and its grants required only 3 years of homeowner's insurance for homes reconstructed or rehabilitated with Supplemental II funds. Of a sample of 59 Supplemental I homes tested, 38 were later damaged by another hurricane or storm. Of the 38 homes, 23 did not have insurance.
Cause: TDHCA designed its action plan to reconstruct or rehabilitate the maximum number of homes for disaster victims rather than require insurance for the homes for a period equitable to the amount of funds invested and the asset life of the home.
Criteria: TDHCA's method of allocation used data from the Federal Emergency Management Agency (FEMA), the Texas Department of Insurance, census poverty data, and public input.
Effect: HUD's CDBG Disaster Recovery funds invested in the homes provided to the disaster victims are at risk of loss.
Recommendation: We recommend that HUD's Director of Disaster Recovery Assistance & Special Issues Division request TDHCA to modify its action plan to either provide homeowner's insurance for a reasonable period to all newly reconstructed or repaired homes for a period equitable to the amount of funds invested and the life of the asset, or request the homeowner to obtain homeowner's insurance as a prerequisite to obtaining assistance for a period equitable to the amount of funds invested and the life of the asset, or prohibit the homeowner from being able to receive future Disaster Recovery assistance if an insurance policy is not maintained on a newly reconstructed or repaired home, which will result in \$60.2 million in funds to be put to better use.

Status:

09/21/09 - TDHCA is not convinced that the State of Texas providing 30 years of insurance to all homeowners whose homes were reconstructed with CDBG disaster recovery funds would be more beneficial than providing homes to as many affected homeowners as possible and requiring them to maintain insurance on their home for the period of the loan or grant. The risk of a major hurricane striking anywhere on the Texas Gulf Coast is approximately 30%. The cost of providing insurance would mean that as many as 50% fewer homeowners could be served. Without sufficient actuarial data and appropriate testing and statistical sampling, TDHCA is unable to make this decision. As a result, TDHCA will follow HUD's program guidance regarding this issue. In the meantime, TDHCA will continue its practice of requiring homeowners to execute an agreement that requires them to maintain insurance, and if the property is damaged, the homeowner may not be eligible for future benefits if they failed to maintain insurance.

<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>
127	8/1/2009 State Auditor's O	A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of Following up on prior audit recommendations and covered all matters related to the administr	Px	08/01/09
			Ix	10/15/09

Division: Disaster Recovery

Section: Not Selected

Issue: Chapter 1-A
The Department should continue to work toward addressing delays that have affected the rate at which Community Development Block Grant hurricane recovery funds have been spent.

Status:

- 10/15/09 - The Disaster Recovery Division continues to work proactively with ACS, the COGs, and other parties to streamline program processes where possible to address delays. Since the SAO audit, staff has worked with the contractors and the Board to implement several policy changes or updates to address delays or obstacles to program delivery. The most prominent changes include the implementation of a revised ownership eligibility policy, revised policies to utilize in the event that the required costs to accomplish the approved project exceed allowable program caps for accessibility and/or municipality requirements, changes in the maximum benefit limitation for elevation assistance when such assistance exceeds the established cap, and a revision to our hold harmless agreement regarding notification to lienholders when providing program assistance to an affected property. This has resulted in an increase to 585 homes completed as of November 23, 2009.
- 08/01/09 - Management agrees with the recommendation. However, the streamlining suggested by the SAO must be a coordinated effort among a number of federal, state, and local governmental entities, and significant streamlining may not be possible without changes to federal and state laws governing the Community Development Block Grant program. Disaster response is an urgent need, and where processes can be streamlined or accelerated to bring needed relief more quickly, such improvements will be made. However, they must always be made in a manner that minimizes the risk of fraud, waste, and abuse and provides assurance that these public funds are, in fact, used only to build safe, decent homes for qualified individuals. During the 81st legislative session, the Legislature provided additional guidance to the Department in order to expedite disaster relief even where recipients could not document legal title to their homes. The Department's Governing Board consequently adopted a policy to move forward with providing relief to these individuals. The Department has worked proactively with ACS, the COGs, and other parties to streamline these processes wherever possible and will continue to seek opportunities to address any delays.

Person Responsible: Kelly Crawford

<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>
128	8/1/2009 State Auditor's O	A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of Following up on prior audit recommendations and covered all matters related to the administr	Px	08/01/09
			Ix	11/09/09

Division: Information Systems

Section: Not Selected

Issue: Chapter 1-E

Although the contractor had information technology controls in place for the three information systems tested, auditors identified weaknesses within those controls that should be addressed to ensure compliance with the Texas Administrative Code and the contract between the contractor and the Department. Recommendation: The Department should monitor the information systems of the contractor to ensure compliance with the contractual provisions related to information system controls. Specifically, the Department should:

- Ensure that the contractor assigns unique user IDs to each individual who uses its information systems.
- Ensure that the contractor removes or disables user IDs for its information systems for terminated employees or employees who are not assigned to the Homeowner Assistance Program or the Sabine Pass Restoration Program.
- Ensure that the contractor enables user password expiration and password complexity within the system the contractor uses to manage the application and construction process.
- Ensure that the contractor implements controls that compensate for the password weaknesses in the system the contractor uses to process payments to building contractors.
- Ensure that the contractor documents, tests, and communicates the key components of its information system change control process.
- Ensure that the contractor stores backup data off site.

Status:

- 11/09/09 - The Department's Information Systems Division management and IT security staff have met with ACS to follow up on the status of each recommendation from chapter 1-E of SAO report 09-048. ACS provided the Department with a description of how each recommendation was addressed and with its written IT change control policies. On an ongoing basis, the Department will conduct monitoring visits to review ACS IT security and disaster recovery controls and procedures.
- 08/01/09 - Management agrees with the recommendation and will work with ACS to ensure that their information technology controls are strengthened. TDHCA's Information Technology staff and Disaster Recovery & Emergency Housing staff will meet with ACS and ensure that the necessary measures are taken and that the recommended controls are implemented.

Person Responsible: Curtis Howe

<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>
138	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Nx	04/27/10
			Ix	07/14/10

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 1-A
Energy Assistance Should Consider Performing the On-Site Davis-Bacon Act Monitoring

The WAP monitoring process has multiple phases, which include a comprehensive on-site monitoring review, a desk review, onsite-client file reviews and a preliminary review, which is specific to ARRA funding. These reviews include the use of standardized monitoring instruments, which are designed to evaluate the subrecipients' program administration and compliance with key contract provisions and laws and regulations. One of the major provisions applicable to ARRA funding is the Davis-Bacon Act. During our analysis of the monitoring instruments, we noted that the monitoring instruments do not include questions for monitoring for Davis-Bacon Act requirements. Previously Davis-Bacon Act requirements were not applicable to WAP.

The Davis-Bacon Act monitoring function for WAP is housed in Program Services, which has labor standards specialists with specialized knowledge of the Davis-Bacon Act. Program Services has not yet begun on-site Davis-Bacon Act monitoring. Currently Program Services is training subrecipients on the Davis-Bacon Act requirements, reviewing certified payrolls submitted by the subrecipients and conducting preconstruction conferences with the subrecipients.

Having the Program Services staff responsible for the on-site portion of the Davis-Bacon Act monitoring may not be as efficient as having the Energy Assistance program officers assist in performing the on-site Davis-Bacon Act monitoring. Because the program officers are already conducting site visits to the subrecipients in order to perform their regular monitoring functions, it may be more cost effective to have them also assume responsibility for the on-site portion of the Davis-Bacon Act monitoring function.

Recommendation

The Department should consider requiring the Energy Assistance program officers to assist in performing the on-site Davis-Bacon Act monitoring to ensure compliance with prevailing wage requirements for the ARRA funded WAP activities.

Status:

- 07/14/10 - On 4/27/2010 Management provided the following response:
Management agrees that it would be beneficial for EA staff that conduct monitoring activities to have familiarity with Davis-Bacon and to incorporate certain basic Davis-Bacon compliance questions into their monitoring protocols. However, given the highly technical nature of the Davis-Bacon Act and the specialized expertise that has been amassed in Program Services, management believes there is benefit to retaining the Program Services role in Davis-Bacon monitoring. The potential cost savings to be achieved in consolidation of these activities under EA WAP program monitoring are not believed sufficiently great to offset the loss of compliance benefits derived from a rigorous and knowledgeable Davis-Bacon monitoring by Program Services staff.
- 04/27/10 - Management agrees that it would be beneficial for EA staff that conduct monitoring activities to have familiarity with Davis-Bacon and to incorporate certain basic Davis-Bacon compliance questions into their monitoring protocols. However, given the highly technical nature of the Davis-Bacon Act and the specialized expertise that has been amassed in Program Services, management believes there is benefit to retaining the Program Services role in Davis-Bacon monitoring. The potential cost savings to be achieved in consolidation of these activities under EA WAP program monitoring are not believed sufficiently great to offset the loss of compliance benefits derived from a rigorous and knowledgeable Davis-Bacon monitoring by Program Services staff.

<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>
139	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10 5/1/2010
			Px	07/14/10 7/29/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 1-B
Monitoring Reports Should Be Issued Timely

The Community Affairs Division's Monitoring Guidelines state that the monitoring report is to be issued within forty-five days of the monitoring visit. However, according to the Weatherization Grant Guidance issued by the Department of Energy (DOE), these reports should be issued within thirty days of the end of the monitoring visit.

We reviewed the monitoring reports for all monitoring visits conducted in program year 2008. Of the 33 monitoring reports reviewed, 18 reports (54.5%) were not issued within the thirty day deadline required by DOE and 16 of those 18 reports (48.5%) were not issued within Energy Assistance's forty-five day deadline. The average number of days in which the reports were issued to the subrecipient was 50.5 days. In one instance 205 days passed between the end of the monitoring visit and the report issuance, which is more than six months.

If Energy Assistance does not issue the monitoring reports timely, the subrecipients may be unaware of the extent or severity of the identified deficiencies and may not correct them in a timely manner.

Recommendations

Energy Assistance should:

- follow the DOE's thirty-day deadline for issuing monitoring reports so that subrecipients can implement the recommended improvements timely, and
- ensure that the Energy Assistance monitoring guidelines are consistent with the DOE's Weatherization Grant Guidance.

Status:

- 07/14/10 - The Staff agrees with the auditor; staff will revise it's guidelines to mirror those of the DOE Weatherization Grant Guidance and will immediately adhere to the revised guidelines of thirty days. New guidelines are proposed and will be submitted to the TDHCA Board for approval during the 07/29/2010 meeting.
- 04/27/10 - Regarding late issuance of reports, staff agrees with the auditor; staff will revise its guidelines to mirror those of the DOE Weatherization Grant Guidance and will immediately adhere to the revised guideline of thirty days. EA has also instituted an enhanced tracking system for monitoring reports that will track when the visit is completed, when the report is due, when the report is sent, when the response is received, and when the report is closed. Management notes that more expedited verbal follow up with subrecipients occurs in situations where a monitoring visit resulted in significant concerns relating to possible misuse of funds or failure to adhere to federal program regulations. Discussions with subrecipients ensues immediately including, when necessary, placement of the subrecipient on cost reimbursement status, which prevents them from drawing down funds until all expenditures are substantiated. Target date for completion – May 1, 2010.

<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>
140	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10 5/1/2010
			Ix	07/14/10 5/1/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 1-C
All Weatherized Units Should be Subject to On-Site Inspections

The DOE Weatherization Grant Guidance requires that the Department perform a comprehensive monitoring of each subrecipient at least once per year. The comprehensive monitoring must include a review of client files and subrecipient records as well as an actual inspection of 5% of the completed units. Energy Assistance's WAP plan, revised March 5, 2010, states that Energy Assistance plans to review client files and inspect at least 5% of the completed units. Prior to the revised plan, Energy Assistance's goal was to inspect 10% of the units weatherized at the time of the monitoring visit. Energy Assistance has been successful in meeting its 10% monitoring goal for DOE weatherized units the past two program years.

Due to the timing of the monitoring visits, the population of units inspected does not necessarily include the units weatherized at the end of the program year. Because the majority of the weatherized units are completed at the end of the program year (see Table 2), this creates a risk that some units may potentially never be selected for monitoring. When a monitoring visit occurs in February, for example, any units completed after the February monitoring visit but before the end of the closeout period on May 31 would not be part of the population of completed units eligible for monitoring. In addition, these units are also not included in the population for the following program year's monitoring visit and would therefore never be monitored. Subrecipients are aware of this timing process. The increase in volume of work at the end of the program year could lead to unsatisfactory performance. The pressure to expend all awarded funds at the end of the year could cause unauthorized transactions to occur and increases the risk that any unauthorized transactions could remain undetected.

Recommendation

Energy Assistance should ensure that any units completed during the program year that were not completed at the time of the monitoring visit be included in the population of units available for inspection during subsequent monitoring visits.

Status:

- 07/14/10 - Staff has implemented the audit recommendation of considering all weatherized units in the sample of units selected for inspection and adjusted the plan to affect the ARRA WAP 2010, DOE WAP and LIHEAP WAP programs. The monitoring plan reflects that monitoring visits will be conducted quarterly and should help mitigate the identified risk.
- 04/27/10 - Staff will implement the audit recommendation and adjust monitoring guidelines accordingly to be in effect for ARRA WAP, 2010 non-ARRA WAP funds and all ensuing WAP program years. The aggressive monitoring plan for ARRA WAP, which requires quarterly monitoring visits through the contract period, would likely also have mitigated this risk. Target date for completion – May 1, 2010.

<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>
141	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10 5/15/2010
			Ix	07/14/10 7/1/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 2-A
Monitoring Activities Should Be Clearly Distinguished From Program Activities

Monitoring of the WAP subrecipients is important to determine if program objectives are met, resources are used effectively, and laws and regulations are followed. In order to be effective, monitoring must be performed in an independent and objective manner. The program officers are responsible for monitoring the program's subrecipients but they also have some responsibility for providing ongoing technical assistance and training. When they are monitoring the subrecipients, the program officers are seen as the face of the Department and are often asked programmatic questions. The program officers are responsible for answering these programmatic questions for their assigned subrecipients. It is possible that subrecipients may perceive the program officers as technical advisors who dictate how WAP should be administered and not as monitors who are responsible for evaluating the subrecipients' performance in administering the program.

Monitors, like auditors, must provide an impartial, unbiased assessment and avoid any possible conflicts of interest. Some of the current duties of the program officers appear to be program advisor duties. Since the program officers answer the subrecipients' programmatic questions and provide guidance and support to the subrecipients, the program officers could be placed in the position of monitoring the subrecipient on program guidance that they previously provided. This can create the potential for impaired objectivity by the program officer. In addition, there is also the risk that issues may not be brought forward by the program officer, program manager, or the division director as the issue may reflect on the quality of the guidance given to the subrecipient or may negatively reflect on the performance of the Energy Assistance staff.

Recommendation

The Department should consider separating the Energy Assistance monitoring responsibilities from the programmatic responsibilities.

Status:

- 07/14/10 - EA has implemented a requirement that Program Officers who advise assigned Subrecipients will not be allowed to monitor the same Subrecipient. The Project Manager of Monitoring will schedule a different Program Officer to monitor the Subrecipient.
- 04/27/10 - Management agrees with the observations and the objective, but the need to maintain consistent program operations in an effort to administer ARRA WAP on a rapidly moving ongoing basis, poses a challenge. Therefore until such time as there is sufficient time and adequate staffing to segregate the functions fully, management intends to implement a requirement that person advising a subrecipient as program staff may not also be the person monitoring that subrecipient. This will be augmented by a policy that bars subrecipients from communicating about substantive programmatic issues with any program staff other than their designated staff person and his or her chain of command. Target date for completion – May 15, 2010.

<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>
142	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10 5/30/2010
			Px	07/14/10 8/30/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 2-B
Ensure Consistency by Enhancing Training for Program Officers

The Energy Assistance program officers have increased from five in program year 2007 to eleven in program year 2009. Energy Assistance plans to further increase the number of program officers to nineteen. Of the eleven current program officers, seven have joined the Department since September 2009. Energy Assistance has controls in place to manage the significant increase in staff, including: documented job descriptions, a documented monitoring plan, standardized monitoring instruments, easy access to management and peers, an effective communication structure and a variety of classroom and on-the-job training opportunities.

The significant growth in staff in such a short time span makes it especially important that program officers receive sufficient and relevant training in order to perform their duties. We reviewed the training attended by the program officers and found it to be relevant to their job duties. However, Energy Assistance does not have a set curriculum for program officers. Instead, program officers determine what training they would like to attend. A core curriculum for the program officers would provide consistency and help ensure that they are all properly trained. The core curriculum should include the courses required to obtain a "Certified Renovator" designation and training in lead safe weatherization methods because this certification and training is required by the DOE's WAP grant guidance.

Two new program officers were sent to a subrecipient for one-on-one unit assessment training from a subrecipient employee. The training was not attended by an experienced program officer who would be able to ensure that the new program officers were trained on the correct way to perform assessments in compliance with the Department's guidelines. Energy Assistance management wanted new program officers to observe a final inspection performed in a real world setting to give the program officers a sense of the work environment during an actual monitoring visit. Because the subrecipient who provided the training earned national recognition by the DOE on their Weatherization Assistance Program, Energy Assistance utilized it as a model for the new program officers.

Program officers may learn monitoring practices that are inconsistent with the Department monitoring guidelines if they are trained by a subrecipient in the absence of a more experienced program officer who could affirm, refute, or further expand on the practices as they are observed. Program officers may place too much reliance on the subrecipient because the subrecipient provided the training and may be reluctant to accurately identify deficiencies that arise at that subrecipient. In addition, the subrecipient could be resistant to monitoring findings if they were providing training to program officers, which could suggest a conflict of interest or impairment of independence on the part of the program officer.

Recommendations

Energy Assistance should ensure that all program officers attend a designated curriculum of classes, which should include certified renovator and lead safe weatherization courses since these are required by the DOE grant guidance. In addition, Energy Assistance should not rely on training provided by the subrecipients since they are the entities the program officers are charged with monitoring. Any on-the-job training should be provided by an experienced program officer in order to ensure that the training provided to the new program officers is in line with the Department's and DOE's guidelines and best practices.

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

- 07/14/10 - Staff will formalize a set core curriculum to ensure consistency in training for newly hired Program Officers which includes all training required by the DOE Grant Guidance. Newly hired Program Officers will also visit Subrecipients for training purposes under the direction of a Senior Program Officer.
- 04/27/10 - Staff will implement the audit recommendation. A formalized set core curriculum will be created to ensure consistency in training for newly hired program officers which, among other things, will include training required by DOE Grant Guidance and require that new program officers that visit subrecipients for training only do so when with a senior program officer. Target date for completion – May 30, 2010.

143	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest
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	<u>Status</u>	<u>Target Date</u>
Px	04/27/10	5/15/2010
Px	07/14/10	8/31/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3A
Policies and Procedures for WAP Monitoring Should be Finalized

The Community Affairs' monitoring guide has been in draft form since August 1, 2009 and has not been finalized and approved by management or distributed to program officers to use. Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for program officers, the program officers may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the program officers.

In addition, we noted an inconsistency between the monitoring report submission deadlines in the draft monitoring guide compared to the monitoring report submission guidelines in DOE's Weatherization Grant Guidance. (See Chapter 1-B)

Recommendation

The draft monitoring guide should be finalized and approved by the Director of Community Affairs. Once finalized, the policies and procedures should be clearly communicated to the program officers.

Status:

- 07/14/10 - Staff will formalize a monitoring guide that will include policies and procedures for Program Officers. The monitoring guide will ensure consistency for all Program Officers. Implementation of recommendations into the guidelines to be completed by 08/31/2010.
- 04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

<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>
144	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10
			Dx	07/14/10

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3B
Policies and Procedures for Davis-Bacon Monitoring of ARRA WAP Should be Finalized

The Labor Standards - American Recovery Reinvestment Act (ARRA) and Weatherization Assistance Program Standard Operating Procedures are in draft form and have not been finalized and approved by management.

Policies and procedures are necessary in order to help ensure that management directives are carried out, and to provide consistency in the performance of duties. Without finalized policies and procedures for the labor standards staff, the staff may not be performing their monitoring responsibilities as management intends. In addition, lack of finalized policies and procedures means that there is no criteria by which to measure the performance of the staff. An approved set of policies and procedures will allow the Department to monitor subrecipients' compliance with the Davis-Bacon Act consistently.

Recommendation

Program Services' policies and procedures for monitoring the Davis-Bacon Act requirements related to ARRA WAP should be finalized. Once they are finalized, they should be clearly communicated to the labor standards staff.

Status:

- 07/14/10 - Staff will formalize a monitoring guide that will include policies and procedures for monitoring the Davis Bacon requirements related to ARRA WAP.
- 04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 1, 2010.

<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>
145	4/27/2010 Internal Audit	An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035 WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest	Px	04/27/10 5/15/2010
			Px	07/14/10 9/30/2010

Division: Community Affairs

Section: Energy Assistance - WAP

Issue: Chapter 3C
Ensure that the Monitor Tracking System Includes All DOE-Required Elements

Although Energy Assistance has a system for tracking the monitoring process, it does not contain all the elements recommended by the DOE. The DOE recommends tracking the findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken and final resolutions. The current monitoring tracking system is an EXCEL spreadsheet maintained by the Project Manager of Monitoring. The spreadsheet includes when monitoring visits occurred and tracks related milestones such as when the report is sent out, when report responses are due, when follow-up letters are sent, when responses are received, and when the findings are closed out. However, the individual monitoring reports must be reviewed to determine the findings, the responsible parties, the corrective action recommended, and the final resolution because none of these elements are captured in the spreadsheet tracking system. These reports are maintained in the subrecipient's folder on a shared drive at the Department. This issue was identified in a prior internal audit report (An Internal Audit Report on the Energy Assistance Weatherization Assistance Program – Subrecipient Monitoring, Report #1012) and the recommendation to track these elements has not been implemented.

The DOE Program Year 2010 Weatherization Program Notice (# 10-1, Effective December 18, 2009) recommends that: "Major findings from the subgrantee monitoring visits and financial audits should be tracked by the grantee to final resolution. DOE recommends that the tracking record developed by the grantee include, but not be limited to: findings, including success stories, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions."

Recommendation

Energy Assistance should ensure the system used for tracking monitoring activities includes all of the elements recommended by the DOE, including: findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolution. This can be accomplished by enhancing the existing EXCEL spreadsheet to include all of the recommended elements or using an ACCESS database that captures all of the recommended elements.

Status:

- 07/14/10 - Staff will formalize a system used for tracking monitoring activities. The activities will include findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions. This database is complex and will require significant staff time.
Database development - Target date 08/15/2010
Data population of database - Target date 09/15/2010
Implementation with EA Program Staff - Target date 09/30/2010
- 04/27/10 - Staff concurs and will implement the audit recommendation. Target date for completion – May 15, 2010.

<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>
148	7/12/2010 Internal Audit	An Internal Audit of the Ethics Program To evaluate the effectiveness of the ethics program and to determine if the Department's em	Px	07/09/10

Division: Human Resources

Section:

Issue: Communication of the ethics program could be further enhanced to ensure that all employees receive periodic ethics training.

A survey conducted by internal audit indicated that the majority (90.1%) of the Department's employees stated that they understood the Department's policy regarding ethics. However, the Department's goal is for all employees to understand the ethics policy in order to make good ethical decisions.

Employees are provided with handouts regarding ethical issues when they are hired, but the Department does not update this knowledge with periodically.

An ethics communication strategy is a major component of an effective ethics program. The ethics communication strategy should include training, periodic communications from management regarding ethical issues, and an annual acknowledgement that employees have read and are aware of the ethics policy.

Status:

07/09/10 - Management will work with Human Resources and the division directors to update the current ethics program to ensure that employees have their knowledge periodically refreshed.

<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>
149	7/12/2010 Internal Audit	An Internal Audit of the Ethics Program To evaluate the effectiveness of the ethics program and to determine if the Department's em	Px	07/09/10

Division: Human Resources

Section:

Issue: The ethics policy should be revised to prohibit the appearance of impropriety in all ethical matters.

The previous ethics policy was more restrictive than the current ethics policy. Specifically, the former policy prohibited any appearance of impropriety for employees. The new ethics policy only prohibits the appearance of a conflict of interest as it relates to outside employment and community service. The Department should amend the ethics policy to prohibit the appearance of impropriety in all situations, not just those related to outside employment and community services.

Status:

07/09/10 - Management will work to update the ethics policy so that the standard of avoiding the "appearance of impropriety" standard is applied broadly, not just with respect to outside employment or community service.