# AUDIT COMMITTEE MEETING
# NOVEMBER 9, 2010
**Gloria Ray, Chair**


Tom Gann, Member
Lowell Keig, Member

AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

November 9, 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 July 28, 2010

Item 2 Presentation, Discussion and Possible Action on the proposed 2011 internal audit plan

Item 3 Presentation and Discussion of recent internal audit reports

Item 4 Follow-up Discussion on ACS/HUD-OIG Contract Process

Item 5 Follow-up Discussion on WAP Monitoring Process

Item 6 Presentation and Discussion of the status of external audits

Item 7 Presentation and Discussion of recent external audit reports

Item 8 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**

**NOVEMBER 9, 2010**

Presentation, Discussion, and Possible Approval of the Audit Committee Meeting Minute Summary for July 28, 2010.

## Recommended Action

Approve Audit Committee Meeting Minute Summary for July 28, 2010.

**RESOLVED**, that the Audit Committee Meeting Minute Summary for July 28, 2010, is hereby approved as presented.

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

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 July 28, 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:

Ms. Ray welcomed Viveca Martinez, Senior Staff Advisor to Lieutenant Governor David Dewhurst, and Dorothy Turner with the State Auditor's Office.

REPORT ITEMS

AGENDA ITEM 1 Presentation, Discussion, and Possible Approval of Audit Committee Minutes for March 10, 2010
The Committee approved the minutes as presented.

AGENDA ITEM 2 Presentation and Discussion of the status of internal audits
Report item only.

AGENDA ITEM 3 Presentation and Discussion of recent internal audit reports
Report item only.

AGENDA ITEM 4 Status of the follow-up review of ACS issues identified by KPMG as part of the Statewide Audit
Report item only.

AGENDA ITEM 5 Presentation and Discussion of the status of external audits
Report item only.

AGENDA ITEM 6 Presentation and Discussion of recent external audit reports
Report item only.

AGENDA ITEM 7 Presentation and Discussion of the status of prior audit issues
Report item only.

EXECUTIVE SESSION

At 5:45 p.m. Ms. Ray convened the Executive Session of the Audit Committee.

OPEN SESSION

At 6:32 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.

Ms. Ray announced that the next meeting of the Audit Committee will be held on Tuesday, November 9, 2010.

ADJOURN

Since there was no further business to come before the Committee, Gloria Ray adjourned the meeting of the Audit Committee at 6:33 p.m. on July 28, 2010.

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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**

**November 9, 2010**

## Action Items

Presentation, discussion and possible action on the proposed 2011 Internal Audit Plan.

## Required Action

Review and approve the draft 2011 internal audit work plan.

## Background

The annual internal audit work plan is required by the Texas Internal Auditing Act. The plan outlines the program areas that the internal audit division will audit during the 2011 fiscal year as well as outlining the other planned activities of the internal audit division.

## Recommendation

Staff recommends approval.

| Department of Housing and Community Affairs<br>Internal Audit Division – Fiscal Year 2011<br>DRAFT Internal Audit Plan | | | |
|---|---|---|---|
| **Program Area/Division** | **Audit** | **Estimated Timeline** | **Comments** |
| NSP | Neighborhood Stabilization Program | Current | Carry-Over from FY 2010 Audit Plan |
| Information Systems | An Audit of Information Technology Governance | Current | Carry-Over from FY 2010 Audit Plan – Required by Audit Standards |
| Community Affairs | Weatherization Program | December 2010 | Scope will be Determined During Planning |
| Disaster Recovery | Hurricane Ike | July 2011 | Scope will be Determined During Planning |
| Multi-Family | Tax Credit Exchange Program | April 2011 | Scope will be Determined During Planning |
| HOME | Tax Credit Assistance Program | January 2011 | Scope will be Determined During Planning |
| **Program Area/Division** | **Management Assistance/ Special Projects** | | **Comments** |
| Internal Audit | Conduct Annual Risk Assessment and Prepare Fiscal Year 2011 Audit Plan | Completed | Required by the Texas Internal Auditing Act and by Audit Standards |
| Internal Audit | Review and Revise Internal Audit Charter | December 2011 | Required by Audit Standards |
| Internal Audit | Quality Assurance Self-Assessment Review | January 2011 | Required by Audit Standards |
| Internal Audit | Review and Revise Internal Audit Policies and Procedures to Comply with New Auditing Standards | August 2011 | The GAO Will Be Releasing A Revised Version of the Government Auditing Standards |
| Internal Audit | Configure Teammate Audit Software | January 2011 | Changes to Teammate will Provide IA with increased Functionality and Efficiency |
| Internal Audit | Preparation and Submission of the Fiscal Year 2010 Annual Internal Audit Report | Completed | Required by the Texas Internal Auditing Act |
| Internal Audit | Coordinate with External Auditors | Ongoing | Ongoing Requirement |
| Internal Audit | Monitor ARRA Issues | Ongoing | Ongoing Requirement |
| All Divisions | Follow-up on the Status of Prior Audit Issues | Ongoing | Required by Audit Standards |
| All Divisions | Tracking the Status of Prior Audit Issues | Ongoing | Required by Audit Standards |
| All Divisions | Tracking, Follow-up and Disposal of Fraud Hotline Calls | Ongoing | Internal Audit is Responsible for the Fraud Hotline |

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Presentation and discussion of recent internal audit reports.

## Required Action

None, information item only.

## Background

Internal Audit of Accounting Operations

We found that Accounting Operations generally has controls in place to ensure that financial transactions are handled correctly, although we identified two of 288 transactions (1.0%) that lacked supporting documentation, and one contract that was set up for less than the amount of the contract award. The objectives of this audit were to determine if federal funds are drawn down in accordance with federal regulations, the Department's policies, and the terms and conditions of the federal award and if select financial transactions are performed in accordance with program rules, federal regulations, state rules and regulations, and Generally Accepted Accounting Principles (GAAP).

Internal Audit of Construction Quality in the Disaster Recovery Division

The majority of homeowners are pleased with the quality of their homes and the professionalism of their builders. We conducted a telephone survey of homeowners who received new homes or repairs to their existing homes as part of the disaster recovery program. When asked how happy they were with the quality of their home's construction, 56 of 66 homeowners (84.8%) rated their happiness as four or five on a scale of one to five (with five as the highest.) The contractor for the Round 2 Hurricane Rita Program (ACS) has made efforts to improve their oversight of the construction process during the course of their contract with the Department. However, they are not providing sufficient active, ongoing oversight of the construction management process as required by the contract. ACS delegated the construction management function to Shaw Environmental, Inc. (Shaw), their subcontractor.

Shaw provides damage assessments for existing homes, inspections of reconstruction and rehabilitation, and serves as the general contractor for rehabilitation projects. Shaw staff review inspection reports and determine that all of the required inspections are completed and that the supporting documentation is in the file. We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that 19 of 100 files (19.0%) did not contain the required inspection documentation. This is especially important because payments to builders are

tied to the inspection process. Without ensuring that the inspections are appropriately documented, there is a risk that a builder could receive payment for work that was not completed correctly, or that the program could be vulnerable if homes are left uncompleted. ACS should ensure that all of the inspection requirements are satisfied and that the necessary documentation is completed before the final inspection is accepted.

## Recommendation

None.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Juan S. Muñoz, Ph.D.

August 25, 2010

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

Re: An Internal Audit of Accounting Operations

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) Accounting Operations section of the Financial Administration Division. We selected a random statistical sample of 288 transactions and tested them to determine if they were authorized properly, applied to the correct funding source, entered into PeopleSoft correctly, and had the appropriate supervisory review. We found that Accounting Operations generally has controls in place to ensure that financial transactions are handled correctly, although we identified two of 288 transactions (1.0%) that lacked supporting documentation, and one contract that was set up for less than the amount of the contract award.

We performed a reconciliation of the HX payment file (from USAS) to the combined balance sheets (PeopleSoft) for the HOME and Housing Trust Fund (HTF) programs for fiscal years 2008 and 2009. (See text box for a definition of this process.) We were able to reconcile both program funds with no errors.

We identified three separate populations of transactions: HOME, HTF, and all other transactions for state fiscal years 2008, 2009, and 2010 through April 30th. We selected a random statistical sample of 288 transactions, 96 transactions for each of these

**Accounting Operations**

Accounting Operations is responsible for processing federal draws and other financial transactions such as accounts payable, and budget transfers. In addition, they are responsible for setting up and maintaining the individual contract awards for the subrecipients of the Department's various programs.

Accounting Operations uses PeopleSoft as the Department's automated financial accounting system. PeopleSoft interfaces with the Uniform Statewide Accounting System (USAS), which is the automated system used by the Texas Comptroller of Public Accounts (Comptroller). The financial transactions that are entered into PeopleSoft are sent to the Comptroller on a daily basis. In addition, the Comptroller sends a data file called the HX payment file back to the Department on a daily basis. The HX payment file is uploaded into PeopleSoft and reconciled with the transactions in PeopleSoft to determine which financial transactions have been processed and paid by the Comptroller.

populations. We tested these transactions to determine if they were authorized properly, applied to the correct funding source, entered into PeopleSoft correctly, and had the appropriate supervisory review.

Of the 288 transactions tested, all were applied to the correct funding source and entered into PeopleSoft correctly. Although PeopleSoft captures the name of the individual who enters and reviews the transaction, the process used by Accounting Operations is for the preparer and the reviewer of the supporting documentation for each transaction to initial the documents prior to the entry of the transaction into PeopleSoft. One HOME transaction did not have supporting documentation showing that the appropriate supervisory approval occurred and one HTF transaction did not have supporting documentation identifying the preparer. In addition, we noted that budget and expenditure transfers that affect the divisions did not have any supporting documentation showing the transfer was originally authorized by the division affected by the transfer.

Because Accounting Operations relies on supporting documentation as evidence of the validity of financial transactions, in addition to what is reflected in PeopleSoft, it is important that the supporting documentation include the appropriate authorizations and supervisory approvals. It is also important to maintain all supporting documentation necessary to these transactions. This will ensure that Accounting Operations is conducting transfers in accordance with the directions of division management.

## Recommendation

When Accounting Operations is processing budget and expenditure transfers, they should maintain the authorization from the originating division.

## *Management's Response*

*Financial Administration will ensure the authorization from the originating division is maintained when budget or expenditure transfers are processed. We will also ensure all supporting documentation is initialed by preparers and approvers. This process will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.*

Of the 288 transactions we tested, 121 were division allocations of larger invoices. The Financial Administration Division utilizes two primary allocation methodologies. For agency-wide costs, such as information management and equipment maintenance, Financial Administration allocates costs throughout the Department proportionate with the number of full-time employees (FTEs) in each Division. For trackable costs, such as telecommunications and office supplies, Financial Administration allocates the actual costs incurred to each division, and their programs. We recalculated the allocation using the appropriate methodology in order to ensure the accuracy of the transaction and determined that Accounting Operations properly applied one of its two primary allocation methodologies in every instance.

Of the 288 transactions tested, 33 were payroll-related transactions. Seven of the payroll transactions we sampled came from USAS generated reports, rather than payroll reports. Since the Comptroller

initiated the USAS reports, Accounting Operations does not maintain the supporting documents and we were unable to test those transactions. For the remaining 26 transactions, we reviewed supporting payroll reports to verify corresponding index numbers, transaction amounts, and dates and found no problems.

We tested a statistical sample of 93 draw down transactions to determine if the draw down was: initiated with the proper authorization, processed timely, applied to the correct grant, received supervisory approval, reduced by any cash on hand, and entered into the appropriate federal draw down system. We found no errors.

We tested a statistical sample of 90 contract awards that were set-up in PeopleSoft by the grant accountants to determine: if the contract award was set-up correctly, if the contract award amount was updated if there were contract award amendments, and if there was a supervisory review prior to the release of the contract award in PeopleSoft. Of the 90 contract awards tested, one was not set-up correctly in PeopleSoft. The contract was set up for $50,000 less in PeopleSoft than in the Contract System. This difference was due to the belief by the Grant Accountant that the contract award would be issued under a separate contract number and not the original contract number. However, the program area awarded the additional funds under the same contract number. Accounting Operations has since updated the contract award amount in PeopleSoft to reflect the additional $50,000.

There is no supervisory review of the contract award set-ups in PeopleSoft. Once the contract award has been set-up in PeopleSoft, the grant accountants have the ability to begin entering draw downs against the contract. In addition, of the 90 contract awards tested, 34 (37.8%) had at least one amendment that either increased or decreased the contract award. A supervisor does not review these changes to the award amount. Because there is no supervisory review of the contract award set-ups or of contract award amendments, there is a risk that the grant accountants who process draw downs could believe that there are more or less funds available than there actually are. In addition, the risk increases if the contract award amount is amended.

## Recommendation

Accounting Operations can strengthen their federal draw process by implementing a review step for the contract award set-ups and contract award amendments in PeopleSoft to ensure the contract award amounts are set-up accurately and that contract award amendments are entered correctly.

## *Management's Response*

*Accounting Operations will expand our contract review process. All subrecipient contracts will be reviewed by the team leader or senior accountant to ensure accuracy. Supporting documents for contract setup and amendments will be approved and maintained. We will also work with Information Systems to explore automation of this process. This will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.*

The objectives of this audit were to:

- Determine if federal funds are drawn down in accordance with federal regulations, the Department's policies, and the terms and conditions of the federal award.

- Determine if select financial transactions are performed in accordance with program rules, federal regulations, state rules and regulations, and Generally Accepted Accounting Principles (GAAP).

This audit was a performance audit and was conducted as part of the 2010 annual internal audit plan. We conducted fieldwork for this audit in June, July, and August 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 tested a statistical sample of financial transactions, contract awards, and federal draws. Our criteria included the General Appropriations Act, the Texas Government Code, the Code of Federal Regulations, the Uniform Grant Management Standards, and the Government Accountability Office's (GAO) *Internal Control Standards for the Federal Government.*

We would like to extend our sincere thanks to the management and staff of the Financial Administration Division 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
Bill Dally, Deputy Executive Director Administration
David Cervantes, Director Financial Administration

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Juan S. Muñoz, Ph.D.

August 31, 2010

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

Re: An Internal Audit of Construction Quality in the Disaster Recovery Division

Attached is an internal audit report on Construction Quality in the Disaster Recovery Division. Our objectives were to determine whether: there are adequate procedures and sufficient documentation to determine the quality of the homes constructed, the ACS contractor is following established procedures to ensure adequate oversight of construction quality, and inspections are contributing to the quality of the homes constructed.

The majority of homeowners are pleased with the quality of their homes and the professionalism of their builders. We conducted a telephone survey of homeowners who received new homes or repairs to their existing homes as part of the disaster recovery program. When asked how happy they were with the quality of their home's construction, 56 of 66 homeowners (84.8%) rated their happiness as four or five on a scale of one to five (with five as the highest.) ACS has made efforts to improve their oversight of the construction process during the course of their contract with the Department. However, they are not providing sufficient active, ongoing oversight of the construction management process as required by the contract. ACS delegated the construction management function to Shaw Environmental, Inc. (Shaw), their subcontractor.

Shaw provides damage assessments for existing homes, inspections of reconstruction and rehabilitation, and serves as the general contractor for rehabilitation projects. Shaw staff review inspection reports and determine that all of the required inspections are completed and that the supporting documentation is in the file. We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that 19 of 100 files (19.0%) did not contain the required inspection documentation. This is especially important because payments to builders are tied to the inspection process. Without ensuring that the inspections are appropriately documented, there is a risk that a builder could receive payment for work that was not completed correctly, or that the program could be vulnerable if homes are left uncompleted. ACS should ensure that all of the inspection requirements are satisfied and that the necessary documentation is completed before the final inspection is accepted.

Shaw is responsible for damage assessments and inspections as well as serving as the general contractor for rehabilitation projects. As a result, they are supervising their own work, which increases the potential for fraud or mismanagement to occur. ACS should ensure that Shaw segregates duties among its employees to ensure that the same employee is not performing conflicting duties.

In addition to the limited oversight provided by ACS and the inspections performed by their subcontractor Shaw, the Department provides additional oversight of the construction process through its physical inspections section. Because the contractual responsibility for oversight lies with ACS, the Department's inspection process was not included in the scope of this audit.

If you have any questions regarding this audit, please contact me at (512) 475-3813. We would like to extend our appreciation to the management and staff of the Disaster Recovery Division, as well as to the management and staff of the ACS and Shaw contractors for their cooperation and assistance during the course of this audit.

Sincerely,

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

Encl. (1)

cc: Michael Gerber, Executive Director
Sara Newsom, Deputy Executive Director for Emergency Housing and Disaster Recovery
Kelly Crawford, Director of Disaster Recovery
Kevin Hamby, Senior Counsel

# Executive Summary

Even though ACS, the contractor used by the Texas Department of Housing and CommunityAffairs (Department) to manage the construction of homes damaged or destroyed by Hurricane Rita, could improve their construction oversight processes, the majority of homeowners are pleased with the quality of their homes and the professionalism of their builders. We conducted a telephone survey of homeowners who received new homes or repairs to their existing homes as part of the disaster recovery program. When asked how happy they were with the quality of their home's construction, 56 of 66 homeowners (84.8%) rated their happiness as four or five on a scale of one to five (with five as the highest.) *(See Chapter 2 for more information on the survey results.)* However, ACS is not providing a sufficient level of oversight over the construction management function as required by their contract with the Department. ACS delegated the construction management function to Shaw Environmental, Inc. (Shaw), their subcontractor.

**The Disaster Recovery Program**

Affiliated Computer Services State and Local Solutions (ACS) executed a contract with the Department for disaster recovery services effective 12/31/2007 for $232,582,827.

The Department of Housing and Urban Development (HUD) granted final approval to use Hurricane Rita Round II funds for the Sabine Pass Restoration Program in September 2008.

Hurricane Ike made landfall on September 13, 2008, delaying the start of construction.

The first manufactured home was completed in January 2009.

As of 8/16/2010, $172,659,866 in disaster recovery funds were spent to complete 1,849 homes. The program is on track for completion in December 2010 with approximately 2,500 homes.

Shaw provides damage assessments for existing homes, inspections of reconstruction and rehabilitation, and serves as the general contractor for rehabilitation projects. Shaw staff review inspection reports and determine that all of the required inspections are completed and that the supporting documentation is in the file. We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that 19 of 100 files (19.0%) did not contain the required inspection documentation. This is especially important because payments to builders are tied to the inspection process. Without ensuring that the inspections are appropriately documented, there is a risk that a builder could receive payment for work that was not completed correctly, or that the program could be vulnerable if homes are left uncompleted. ACS should ensure that all of the inspection requirements are satisfied and that the necessary documentation is completed before the final inspection is accepted.

ACS has made some efforts to improve their oversight of the construction process. They hired a construction manager to conduct inspections of the construction sites. However, he does not document the results of these inspections. Without documentation, there is no way to identify the level of oversight he provides for the construction of these homes. The Department should require ACS to document the results of the construction manager's inspections. In addition, ACS hired a production manager to provide

operational oversight of the entire construction process and to provide data regarding the program. However, the data provided may not be accurate because it consists partly of forecasts and estimates, some of which is self-reported by the builders.

In addition to the limited oversight provided by ACS and the inspections performed by their subcontractor Shaw, the Department provides additional oversight of the construction process through its physical inspections section. The Department's inspectors attempt to inspect 20% of each builder's homes to look for patterns in builder performance as well as to determine if the home is built correctly. These inspections are generally performed after the home is complete and occupied. Because the contractual responsibility for oversight lies with ACS, the Department's inspection process was not included in the scope of this audit.

## Other Key Points

- While the majority of homeowners were very happy, several homeowners were dissatisfied or complained about their homes. The process used by ACS to track and address homeowner complaints does not include regular monitoring or effective aging of the complaints.

- Shaw is responsible for inspecting homes and also serves as the designated general contractor for rehabilitation projects. As a result, Shaw is inspecting its own work. This lack of segregation of duties increases the risk of fraud or mismanagement.

## Summary of Recommendations

- ACS should strengthen the process for capturing and tracking complaints to ensure complaints are resolved in a timely manner. They should monitor the construction-related tasks to ensure that a task is completely resolved before the task is marked complete by the builder. In addition, ACS should expand the range for classifying outstanding construction complaints to include 31-60 days, 61-90 days, 91-120 days and greater than 120 days.

- ACS should ensure that Shaw segregates duties among employees so that the same employee is not assigning contractors and inspectors, reviewing and approving inspection documents, and authorizing payments.

## Management's Summary of Their Responses

*Management believes it is important to note that the Rita Round II program addressed by this report was a brand new style and program that was designed to be the largest disaster recovery program in Texas' history. We are also very pleased to see that most homeowners are generally pleased with their homes. Given the learning curve with this size and scope of delivery system, Management generally agrees with the recommendations in this Internal Audit Report and recognizes the opportunity to enhance controls over the construction inspection and oversight process.*

*Management also wants to acknowledge that while we understand that the TDHCA process was not included in this review, we have used TDHCA internal inspectors to verify quality control of these homes and when construction issues are found, we have required repair and corrected any patterns lending to future maintance issues as they are identified. We do believe in the front line system management called for in this report, but have not left that as the only quality control inspection.*

*While this program draws to a conclusion in the next four months, the Disaster Recovery Division will work to implement effective controls. Perhaps even more important are the lessons to carry forward as best practices for future disaster recovery programs to ensure quality construction and program oversight for large scale recovery programs whether implemented at the state or local levels.*

# Table of Contents

# Detailed Results

*Chapter 1*

## The Department Should Ensure that ACS Provides Consistent and Effective Oversight of the Construction Activity

Affiliated Computer Services State and Local Solutions (ACS), the Department's contractor for Hurricane Rita Disaster Recovery, does not provide consistent and effective oversight of the construction management for disaster recovery homes as required by their contract with the Department. ACS delegated construction management to Shaw Environmental, Inc. (Shaw), their subcontractor. Shaw is responsible for assessing the damage to existing homes, and inspecting the reconstruction and rehabilitation of homes. In addition, Shaw is responsible for managing the construction of rehabilitation homes. *(See Chapter 3 for more information on this issue.)*

**Types of Disaster Recovery Construction Projects**

**Reconstruction** is new home construction that is either stick built or a manufactured housing unit.

**Rehabilitation** refers to repairs or safety improvements made to an existing structure.

In addition to the inspections performed by Shaw, ACS hired a construction manager to conduct oversight inspections of the construction sites. However, the construction manager does not document the results of his site visits. Without documentation of these visits, there is no record to support any assistance or guidance provided to the builders. ACS also has a production manager who provides some operational oversight of the construction process. The production manager tracks and reports data related to the construction and inspection processes. However, this data may not be accurate because it consists partly of forecasts and estimates, some of which is self-reported by the builders.

Although Shaw uses check lists to ensure that all of the required documentation is completed, final inspections are accepted even when the paperwork is not complete. We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that 19 of 100 files (19.0%) did not contain the required inspection documentation. This is especially important because payments to builders are tied to the inspection process.

*Chapter 1-A*

## ACS Should Improve Its Supervision of the Construction Management Function

ACS delegated the management of the construction of disaster recovery homes to its subcontractor, Shaw. ACS does not provide sufficient active, ongoing oversight of Shaw's management of the construction process as required by ACS's contract with the Department. The contract between ACS and the Department requires ACS to conduct

reviews, perform testing and develop processes to assure quality performance and timeliness of suppliers. In addition, the contract requires ACS to provide written results of its quality assurance processes. We tested a random statistical sample of 100 completed homes and found that eighty-six of 100 (86.0%) completed home files did not contain documentation of a workmanship inspection.

ACS has performed some limited oversight of construction. They hired a third party inspector to conduct workmanship reviews between June 2009 and early February 2010. Ten of the 14 files (71.4%) found to have a workmanship inspection contained a single photograph of the exterior of the home or a photo of an empty lot as evidence of the inspection. Subsequently, ACS hired a construction manager to conduct inspections of the construction sites. The construction manager does not use a checklist nor does he file a report for these site visits. Without documentation of these visits, there is no record to support any assistance or guidance provided to the builders.

The ACS production manager provides some operational oversight of the construction process. The production manager conducts a daily conference call to discuss anticipated application approvals, anticipated and actual closings, anticipated and actual construction starts, inspections and completed homes. The purpose of this daily call is to share data with the Department and with Shaw. However, the data in these reports may not be accurate because some of this data consists of forecasts and estimates. In addition, the data is not aged beyond 30 days, and includes data self-reported by the builders which could be manipulated.

The ACS construction manager and production manager are responsible for overseeing Shaw, as well as the home inspectors and the home builders. However, ACS has not provided specific guidance nor current written procedures to these oversight staff. Without guidance or updated procedures, these staff may not be aware of all of their responsibilities.

## Recommendations

- The Department should ensure that ACS provides active and ongoing oversight of the construction management function.
- The results of ACS's oversight should be documented, reviewed and retained by the Department to ensure that it is performed properly.
- ACS should establish a procedure to provide written feedback to Shaw and their building contractors when needed.
- ACS should develop and implement a formal policy and current written procedures for providing oversight of the construction management function.

## Management's Response

*Management acknowledges the need for ongoing oversight of the construction management function and will provide guidance to ACS on ways to enhance their documentation of oversight they are currently conducting as well as feedback provided to*

*Shaw and the building contractors. Management will also include this in the design of programs moving forward to require the inspections in large scale disaster recovery programs, and also require the physical documentation that the work has been done in a timely manner.*

*Implementation Date: September, 2010*

*Staff Responsible: Disaster Recovery Director and Grant Compliance Manager*

*Chapter 1-B*

## Improvements Should be Made in the Home Inspection and Approval Processes to Ensure that Inspection Requirements are Met

The team lead for Shaw management inspections reviews the inspection reports to verify that all the inspection requirements are completed and the supporting documentation is in the file. We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that nineteen of 100 files (19.0%) did not contain the required inspection documentation. For example:

- One of two (50.0%) of the rehabilitation inspections included in the sample did not contain any documentation of the completed work.
- Four of 26 (15.4%) manufactured home files did not contain the required T-Form, which is an installation inspection application filed with the Department's Manufactured Housing Division to verify that the manufactured home is installed properly.
- Nine of the 100 files (9.0%) with approved final inspections contained notes in the file or on the Housing Quality Survey form that appliances were missing from the home. Six of these were due to theft and in three of these homes the appliances were not delivered before the final inspection.
- One home did not have evidence of working electrical service.
- Five files did not have signed final inspection documents. These documents should be collected by the inspector during the final inspection.

Although checklists are used to ensure that all of the required documentation is completed, final inspections are accepted even when the paperwork is not complete. The builder can request the balance of the payment for the home (less a 10% retainage) when the final inspection is accepted. *(See Appendix C for more information regarding the inspection process.)* If the inspection requirements are not met but the bulk of the funds are paid out, this could put the Department at risk if the home is not satisfactorily completed.

## Recommendations

ACS should ensure that:

- all inspection requirements are completed and documented in the file prior to accepting the final inspection, and
- all required documents are present in the file before paying the builders.

## Management's Response

*Management will work with ACS to ensure that all requirements are met and all documentation exists to support a proper final inspection that substantiates completion and payment to the builders.*

*Implementation Date: September 2010*

*Staff Responsible: Disaster Recovery Director and Grant Compliance Manager*

*Chapter 2*

## The Majority of Homeowners are Happy with Their Homes, but the Process for Capturing and Tracking Complaints Should Be Improved

We conducted a telephone survey to ask homeowners' opinions about the quality of construction of their homes. *(See Appendix D for the survey questions and Appendix E for the survey results.)* We selected a random sample of 120 homeowners and obtained responses from 68 of these homeowners (56.7%). When asked how happy they were with the quality of their home's construction, 56 of 66 (84.8%) rated their happiness as four or five on a scale of one to five with five as the highest. (We were not able to contact all of the homeowners in our sample, and not all survey respondents answered every question; in some cases the results may be based on 66 responses instead of 68.)

While the majority of homeowners were very happy, several homeowners were dissatisfied or complained about their homes. Some homeowners reported that they complained multiple times. Our review of the complaint process identified opportunities for improvements to the complaint process as well as to the timeliness of complaint resolution. ACS does not perform surveys to measure homeowner satisfaction. In addition, builders can self-report the resolution of a complaint before it is completely resolved.

The majority of construction-related homeowner complaints were more than 30 days old, indicating that they are not resolved in a timely manner. ACS has a production report that tracks complaints. However, this report does not classify the age of complaints as 31-60 days, 61-90 days, 91-120 days, and greater than 120 days. Consequently, it is difficult to determine how long construction complaints remain unresolved after 30 days. Homeowner complaints should be resolved in a satisfactory and timely manner.

*Chapter 2-A*

### The Majority of Homeowners Surveyed were Very Happy with the Quality of the Construction of Their Home

In our telephone survey of homeowners whose homes were built with disaster recovery funds, we found that the majority of homeowners were very happy. We asked homeowners to rate their happiness on a scale of one to five with five as the highest. When asked how happy they were with the quality of construction of their home, 46 of 66 (69.7%) rated their happiness level as five. Ten of 66 (15.2 %) rated their happiness level as four on a scale of one to five. Five homeowners (7.6%) rated their happiness level as two or below on a scale of one to five. The average rating based on 66 responses to this question was 4.41, indicating that homeowners were very happy with the quality of construction of their homes. *(See Figure 1)*

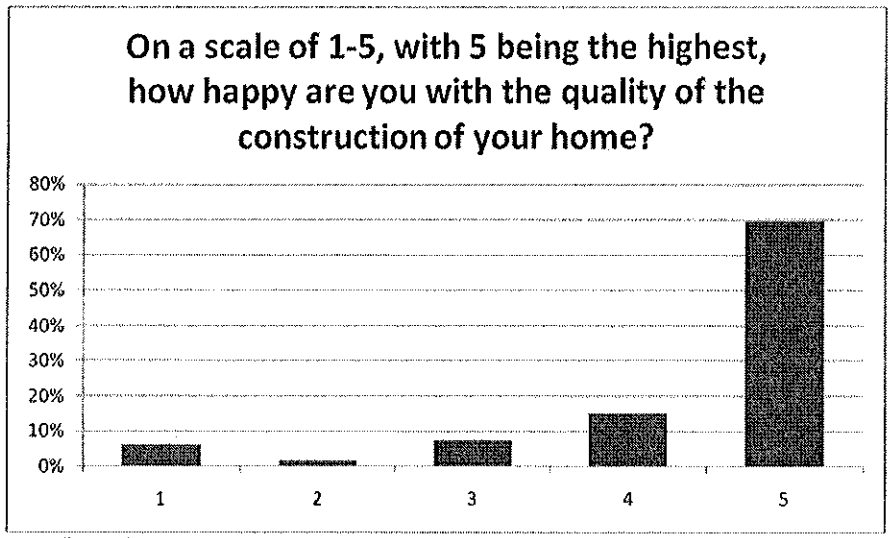



Figure 1

**The majority of homeowners rated their home builder as excellent or good.**

Homeowners were asked to rate their builders as excellent, good, adequate, or poor in the following four areas:

- Responding promptly to concerns
- Answering questions
- Using quality materials
- Performing quality construction

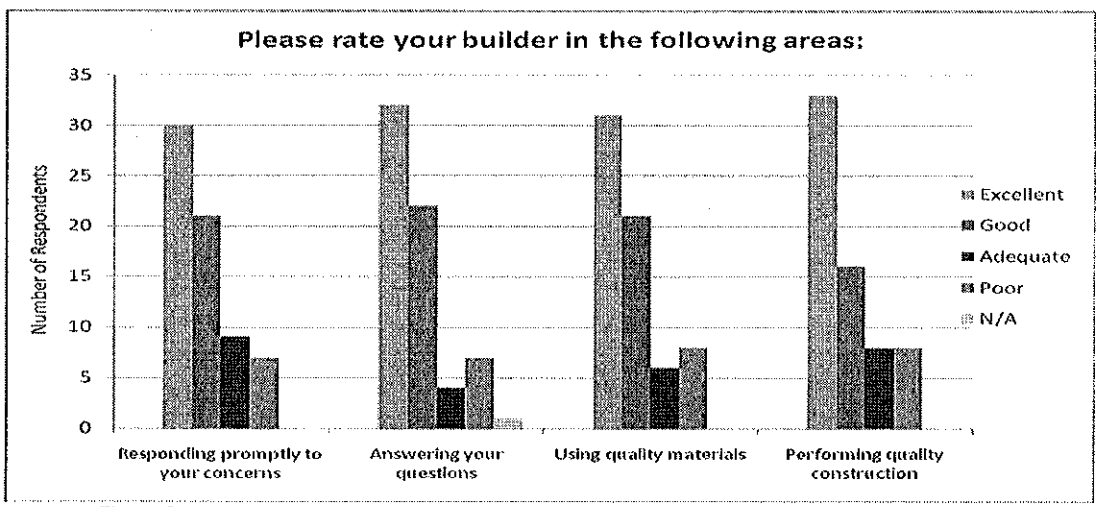



Figure 2

As indicated in Figure 2 above:

- 76.1% of the respondents rated their builder as "excellent" or "good" when responding to their concerns.
- 81.8% of the respondents rated their builder as "excellent" or "good" when answering questions.

- 78.8% of the respondents rated their builder as "excellent" or "good" at using quality materials.
- 75.4% of the respondents rated their builder was "excellent" or "good" at performing quality constuction.

**The majority of homeowners stated that everything was working in their home when they moved into their home.**

The majority of homeowners, 55 of 67 (82.1%), indicated that everything was working when they moved into their homes. However, as indicated in Figure 3, 56 of 68 homeowners (82.4%) said they called for warranty service one or more times. Twelve respondents reported they called for warranty service five or more times, while another 12 (17.6%) stated that they had not called for warranty service at all.

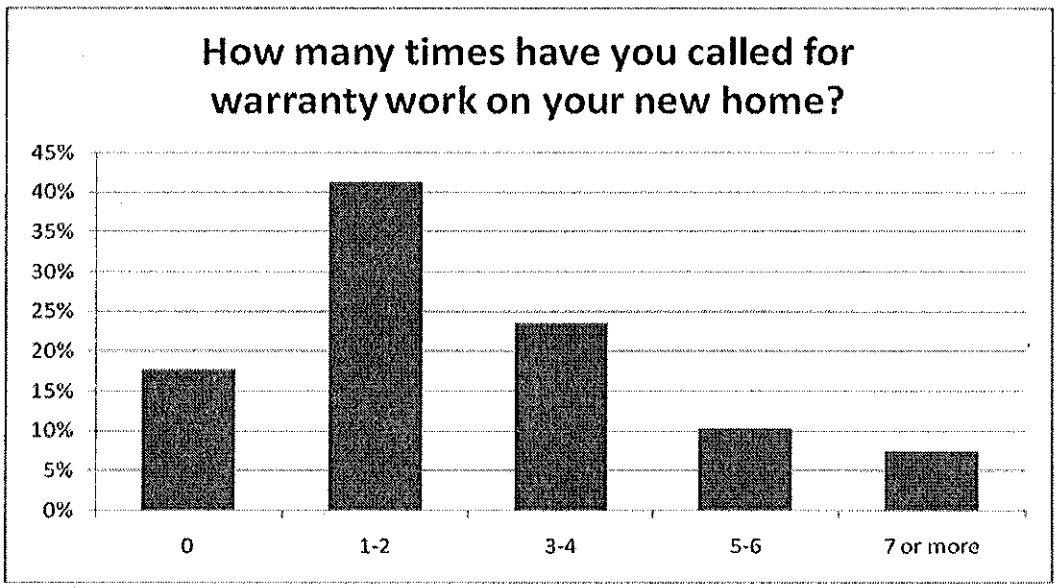


Figure 3

Fifty-three percent of those that stated they called for warranty service indicated that not everything was fixed. It is important to note that only 67.7 % of those that indicated that not everything was fixed stated that they had called to report that the problem was still outstanding.

*Chapter 2-B*

## The Process Used by ACS to Capture and Track Complaints Needs Improvement

The ACS call center refers a homeowner with a construction complaint directly to the builder. If the homeowner calls again about the same issue, a task is created for the builder in Worltrac, which is the automated system used by ACS to manage the disaster recovery process. ACS tracks the number of construction complaints (tasks.) Complaints are aged to determine how long they are outstanding. Currently the complaints are aged

in 3 to 15 day increments up to 30 days. All complaints over 30 days are classified as 30+ days which is the highest range for classification. The production report that shows the classification of complaints is referred to as the dashboard report. As of the July 11, 2010 dashboard report, 66.0% of the construction-related complaints were more than 30 days old. This suggests that tasks are not resolved in a timely manner and that management may not be aware of the true age of a complaint once it exceeds 30 days.

Tasks can be marked as completed by the builder even when they are not completely resolved. For example, a builder scheduled the work to complete the task and at that point changed the task status to completed, although the work to satisfy the complaint was not yet accomplished. Because the task status was changed to completed, it appeared that the homeowner's issue was completely resolved, and that the resolution occurred at an earlier point in time.

Homeowner complaints should be resolved timely and satisfactorily. Resolving a complaint on the first attempt will save money by eliminating unnecessary additional trips to the home. If ACS management does not monitor complaints regularly they may not be corrected timely or satisfactorily. As a result, homeowners may be dissatisfied and the warranty period could lapse before all problems are resolved.

## Recommendations

ACS should:

- ensure customer complaints are resolved in a timely manner,
- monitor the construction-related tasks regularly to ensure that a task is completely resolved before it is marked as complete by the builder,
- consider expanding the range for classifying outstanding construction complaints to include: 31-60 days, 61-90 days, 91-120 days and greater than 120 days,
- consider evaluating customer satisfaction by using telephone calls, letters and surveys to help identify and resolve the causes of homeowner dissatisfaction.

## Management's Response

*Management will work with ACS to more closely manage the complaint process. The process for resolving complaints will not end when the contract does as one of the key goals for this program is to create a relationship between the homeowner and the builder so the property homeowners could require traditional methods warranty work be done. For the duration of this Program, and to provide the most information as the program closes, correction of complaints should be completed immediately. Since the Program will be concluding within the next four months, management will carry forward this process improvement recommendation as a best practice for future disaster recovery programs.*

*Implementation Date: September 2010 and ongoing*

*Staff Responsible: Disaster Recovery Director and Grant Compliance Manager*

*Chapter 3*

# ACS Should Improve the Construction Management Process to Increase Accountability and Accuracy

The construction management processes used by ACS and its subcontractor Shaw need improvement to increase accountability for the inspection and rehabilitation of homes.

ACS has contractually delegated the responsibility for the repair of existing homes to its subcontractor Shaw. Shaw is currently the general contractor for the rehabilitation portion of the disaster recovery program. As the general contractor, their responsibilities include selecting contractors, reviewing bids and hiring subcontractors to perform home repairs. In the same contract, Shaw is required to obtain qualified construction inspectors to provide "continuous inspections for home rehabilitation activities and up to four inspections of new home construction."

The contract between ACS and Shaw allows Shaw to engage in both contracting and inspection activities. As a result, Shaw is inspecting its own construction work. This lack of segregation of duties increases the possibility of errors and increases the risk that fraud or mismanagement could occur.

The Shaw manager reviews and accepts bids from subcontractors for rehabilitation work. The manager is also responsible for assigning the Shaw inspectors to inspect the rehabilitation work performed by its own subcontractors. In addition, the manager reviews and approves the inspection documents and photos entered into the Worltrac system. When the builder submits a request for payment, the request is approved by the Shaw manager. The purpose of segregating duties is so that the same individual is not in a position to initiate, approve, and review the same activity.

## Recommendation

ACS should ensure that Shaw segregates duties among its employees so that the same employee is not assigning contractors and inspectors, reviewing and approving inspection documents and authorizing payments.

## Management's Response

*While there are very few rehabilitations left to undergo this process, management will work with ACS to determine if any further segregation of duties can be attained and will work to ensure enhanced oversight of this process.*

*Implementation Date: September 2010*

*Staff Responsible: Disaster Recovery Director and Grant Compliance Manager*

*Appendix A*

# Objectives, Scope and Methodology

## Objectives

To determine whether:

- there are adequate procedures and sufficient documentation to determine the quality of the homes constructed.
- the ACS contractor is following established procedures to ensure adequate oversight of construction quality.
- inspections are contributing to the quality of the homes constructed.

## Scope

The scope included:

- CDBG Disaster Recovery Round Two (Hurricane Rita –ACS contract)
- Completed home files as of June 8, 2010
- We did not perform audit work on the Worltrac system, which is the automated system used by ACS to track construction projects. Instead, we were able to rely on work performed on this system in 2009 by KPMG as part of the Statewide audit, and by Deloitte and Touche, LLP as part of the Department's annual financial report, as well as recent testing performed by internal audit to follow up on KPMG's findings.

## Methodology

The methodology consisted of evaluating the procedures and the documentation used to determine the quality of the homes constructed. More specifically:

- We gained an understanding of the program by interviewing ACS and Shaw staff and inspectors and reviewing background information, relevant laws, regulations, and policies and procedures.
- We evaluated the CDBG Rita Recovery Round Two policy and procedures manual.
- We developed a list of procedures and documents required by ACS to complete the construction process.
- We tested a sample of files for completed homes including urban and rural, rehabilitation properties and reconstruction properties to determine if the procedures identified above were followed and if the required documents were completed correctly.
- We observed the inspection process to determine what procedures were performed during inspections.
- We reviewed and evaluated the process for capturing and tracking customer complaints.

- We evaluated the oversight provided by ACS by reviewing a random statistical sample of 100 files of completed homes to determine if there was evidence of oversight activities.
- We conducted a telephone survey of a random sample of 120 homeowners to determine their opinions regarding the quality of the construction of their homes.

We reviewed the following documents:

- CDBG Rita Recovery Round Two Policy and Procedures Manual version 5.7, amended January 27, 2010,
- Disaster Recovery Division Organizational Chart dated April 14, 2010,
- Summary of Single Family Residential Construction/Development Requirements for Major Municipalities in the Top Five Counties of the Affected Area by Applicant Density dated August 22, 2009,
- Production Pipeline Report dated 06/08/2010,
- Construction Aging Report as of 6/24/2010, and
- Texas Housing Dashboard Report dated 7/11/2010.

We used the following documents as criteria:

- Federal Register Volume 71, No. 29,
- 24 CFR 982.401 Housing Quality Standards,
- 48 CFR Part 31 Allowability of Costs,
- Public Law 109–148 dated December 30, 2005,
- Public Law 109-234 dated June 15, 2006,
- Texas Residential Construction Commission Summary of State Minimum Warranties,
- Contract between ACS and the Department,
- Contract between ACS and Shaw, and
- Serving the American Public: Best Practices in Resolving Customer Complaints by the Federal Benchmarking Consortium March 1996

## Type of Audit

This audit was a performance audit of the CDBG Disaster Recovery Hurricane Rita Round Two construction quality, which included a review of policies and procedures designed to provide reasonable assurance of compliance with significant laws, regulations and program rules.

## Report Distribution

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

- Department's 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 June through July 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:

Harriet Fortson, MAcy, CGAP, CICA, Audit Project Manager
Jesse Gonzalez
Kari Reitan
Betsy Schwing, CPA, CFE

## Appreciation to Staff

We would like to extend our appreciation to the management and staff of the Disaster Recovery Division, as well as to the management and staff of the ACS and Shaw contractors for their cooperation and assistance during the course of this audit.

*Appendix B*

## Background

Hurricane Rita came ashore on September 24, 2005. Legislation was passed authorizing additional funding (called round two funds) for disaster recovery on June 15, 2006. On April 13, 2007, HUD made available round two funding.

The contract between the Department and ACS State and Local Solutions (ACS) became effective on December 31, 2007.

The Department encountered several challenges that impacted the timeline in which the first round two homes were built:

- The Department did not receive approval from HUD to use round two funds for the Sabine Pass Restoration Program until September 2008.
- Approval to use HUD funds for the South East Texas Regional Planning Commission Area Homeowner Assistance Program occurred in January 2009.
- Approval to use HUD funds for the Deep East Texas Council of Government and Houston-Galveston Area Council Housing Assistance Program occurred in February 2009.

Other circumstances that impacted the Department's building of the first homes included:

- Obtaining proof of property ownership from the homeowners,
- Obtaining environmental clearances,
- Hurricane Ike making landfall in Texas on September 13, 2008,
- Obtaining guidance from HUD regarding procedures to be taken for applicants affected by both Hurricane Rita and Hurricane Ike,
- Checking for duplication of benefits, and
- Finding qualified builders.

The first manufactured housing unit was completed in January of 2009. The Department reported that as of August 16, 2010, 1,849 homes have been built with CDBG Disaster Recovery funds.

*Appendix C*

## The Inspection Process

Shaw inspectors conduct three inspections for reconstructed homes: an initial, an intermediate, and a final inspection. The initial inspection is conducted to determine the extent of damage to the home and to determine whether the home is repairable (rehabilitation) or should be replaced (reconstruction). If the homeowner is determined eligible for reconstruction, the homeowner meets with the builder assigned by Shaw to select a home from the floor plans for which the homeowner is qualified.

After construction begins, the intermediate inspection is conducted when the house is "dried in" to verify the structure is built according to the engineering plans and in conformance with local municipal ordinances. The final inspection occurs when the home is complete.

The inspection process and program compliance are tied to the draw request from the builder. The builder will contact Shaw to schedule an inspection. The inspection, regardless of whether it is an intermediate or final inspection, requires the presence of the homeowner, the builder's superintendent, and the Shaw inspector.

**Relevant Terminology**

Accessibility - A maximum of $15,000 is available for persons with disabilities or who are elderly (age 55 or over as of the benefit selection meeting.)
Bundles - A group of accessibility improvements - ramp entrance, grab bars, handicapped toilets, accessible shower or bathtub.
Dried-In - The structure includes exterior framing, walls, roof, windows and doors installed(includes rough-in).
Elevation standards - Reconstructed homes must be elevated to the latest available FEMA guidance for base flood elevations.
Rough-In - Initial framing, electrical, plumbing - including tub or shower, hot water heater, HVAC - duct work and interior unit installed properly (before sheetrock.)

Prior to the actual inspection, the inspector's job is to review the homeowner file to identify the type of construction, the builder assigned to the project, the house plan number and square footage, and any additions to the project, such as handicapped accessibility or elevation. As part of the documentation of the inspection, the inspector completes a checklist for the inspection and is required to include a statement in his notes that confirms the home being built is the home selected by the homeowner. Specific photographs are required at each inspection to document the completion of work items.

If the inspection passes, the builder's superintendent, the homeowner and the inspector sign a "request for payment" form and the inspection form confirming their agreement and acceptance of the work completed. The inspection documentation and photographs are loaded into the Worltrac system for review. If the inspection failed, the inspector will list the item(s) that failed and what work needs to be completed to pass inspection. The inspection is reviewed and approved by the Shaw inspections team lead.

*Appendix D*

## Survey Form

### How Are We Doing?

We are performing an audit of the quality of the construction of the homes built with Hurricane Recovery Funds. We would appreciate your feedback on the quality of the construction of your home.

**1. Customer Information (to be filled in by Auditor from sample data):**

App Id:
Name:
Address:
City/Town:
ZIP:
County:
Phone Number:
Builder:

**2. Was everything working when you moved into the home?**

◯ Yes ◯ No

**3. How many times have you called for warranty work on your new home?**

◯ 0 ◯ 1-2 ◯ 3-4 ◯ 5-6 ◯ 7 or more

**4. Have all requested repairs been made to your home as of this date?**

◯ Yes ◯ No ◯ NA

**5. If not, have you called the builder to report the problem?**

◯ Yes ◯ No ◯ NA

**6. Do you know (or know where to find) the name and telephone number of your warranty service person?**

◯ Yes ◯ No

**7. Please rate the builder in the following areas.**

| | Excellent | Good | Adequate | Poor | N/A |
|---|---|---|---|---|---|
| Responding promptly to your concerns | ◯ | ◯ | ◯ | ◯ | ◯ |
| Answering your questions | ◯ | ◯ | ◯ | ◯ | ◯ |
| Using quality materials | ◯ | ◯ | ◯ | ◯ | ◯ |
| Performing quality construction | ◯ | ◯ | ◯ | ◯ | ◯ |

**8. On a scale of 1-5, with 5 being the highest, how happy are you with the quality of the construction of your home?**

◯ 1 ◯ 2 ◯ 3 ◯ 4 ◯ 5

*Appendix E*

## Survey Results

Quality Assessment Survey

1. Customer Information (to be filled in by Auditor from sample data):

| Answer Options | Response Percent | Response Count |
|---|---|---|
| App id: | 100.0% | 68 |
| Name: | 100.0% | 68 |
| Address: | 100.0% | 68 |
| City/Town: | 100.0% | 68 |
| ZIP: | 100.0% | 68 |
| County: | 100.0% | 68 |
| Phone Number: | 100.0% | 68 |
| Builder: | 100.0% | 68 |
| answered question | | 68 |
| skipped question | | 0 |

2. Was everything working when you moved into the home?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| Yes | 82.1% | 55 |
| No | 17.9% | 12 |
| answered question | | 67 |
| skipped question | | 1 |

3. How many times have you called for warranty work on your new home?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| 0 | 17.6% | 12 |
| 1-2 | 41.2% | 28 |
| 3-4 | 23.5% | 16 |
| 5-6 | 10.3% | 7 |
| 7 or more | 7.4% | 5 |
| answered question | | 68 |

| | |
|---|---|
| skipped question | 0 |

4. Have all requested repairs been made to your home as of this date?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| Yes | 38.2% | 26 |
| No | 52.9% | 36 |
| NA | 8.8% | 6 |
| answered question | | 68 |
| skipped question | | 0 |

5. If not, have you called the builder to report the problem?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| Yes | 36.5% | 23 |
| No | 17.5% | 11 |
| NA | 46.0% | 29 |
| answered question | | 63 |
| skipped question | | 5 |

6. Do you know (or know where to find) the name and telephone number of your warranty service person?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| Yes | 77.9% | 53 |
| No | 22.1% | 15 |
| answered question | | 68 |
| skipped question | | 0 |

7. Please rate the builder in the following areas.

| Answer Options | Excellent | Good | Adequate | Poor | N/A | Response Count |
|---|---|---|---|---|---|---|
| Responding promptly to your concerns | 30 | 21 | 9 | 7 | 0 | 67 |
| Answering your questions | 32 | 22 | 4 | 7 | 1 | 66 |
| Using quality materials | 31 | 21 | 6 | 8 | 0 | 66 |
| Performing quality construction | 33 | 16 | 8 | 8 | 0 | 65 |
| answered question | | | | | | 67 |
| skipped question | | | | | | 1 |

8. On a scale of 1-5, with 5 being the highest, how happy are you with the quality of the construction of your home?

| Answer Options | Response Percent | Response Count |
|---|---|---|
| 1 | 6.1% | 4 |
| 2 | 1.5% | 1 |
| 3 | 7.6% | 5 |
| 4 | 15.2% | 10 |
| 5 | 69.7% | 46 |
| answered question | | 66 |
| skipped question | | 2 |

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Follow-up discussion on the ACS/HUD-OIG contract issue.

## Required Action

None, information item only.

## Background

HUD-OIG's recent audit of the contract between the Department and its disaster recovery contractor for Hurricane Rita round 2 (ACS) requires a revision of the contract in order to address HUD-OIG's concerns. This discussion is an update on the Department's efforts to revise the contract.

The following HUD-OIG findings require a revision to the contract:

The form of payment for rehabilitation oversight/construction management could be construed to be a cost plus style agreement which is not allowed under federal law. HUD-OIG recommended that the Department "Modify its contract to correct the $2,231,365 cost plus a percentage of cost "Construction Mgmt Fee."

TDHCA's contract with ACS lacked sufficient detail describing and tying the amounts in the payment and reimbursement section to the scope of services section. HUD-OIG recommended that the Department "Modify the contract language to include sufficient detail to allow for the proper tying of budgeted costs to the scope of services and approve a final budget that properly identifies and allocates all costs to support $14,327,124 in questioned costs: $10,048,376 in estimated "per Home Rate" costs, $2,856,620 for budgeted "Construction Mgmt," and $1,422,128 for "PMO-Shaw Labor" costs."

## Recommendation

None, information item only.

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Follow-up discussion on the Weatherization Assistance Program's (WAP) monitoring process.

## Required Action

None, information item only.

## Background

Internal audit's April 2010 audit report on the Weatherization Assistance Program's (WAP) monitoring process identified some structural issues relating to the monitoring and technical assistance functions of WAP. At the July audit committee meeting, management was asked to examine these functions and report back to the audit committee.

## Recommendation

None.

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Presentation and discussion of the status of external audits.

## Required Action

None, information item only.

## Background

There are seven audits external audits for fiscal year 2011 that are either planned, underway or were recently completed and in which reports are pending.

In addition to the seven external audits pending for fiscal year 2011, the Department has still not received reports for the following external audits from fiscal year 2010:

- HUD Review of the Low Income Home Energy Assistance Program (LIHEAP)
- HUD Review of Davis-Bacon compliance –the draft report was received in August and responses were submitted back to HUD on November 1st. HUD has not yet issued a final report.
- HUD Review of the CDBG Disaster Recovery Program – this was a July 2009 monitoring visit, the draft report was received in March 2010 and responses were submitted back to HUD in June. HUD has not yet issued a final report.

## Recommendation

None, information item only.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**INTERNAL AUDIT DIVISION – STATUS OF FY 2011 EXTERNAL AUDITS**
**November 9, 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 | Fieldwork | Report due in March 2011. |
| Deloitte and Touche | Annual opinion audits:<br>• Basic Financial Statements for the FYE August 31, 2010.<br>• Revenue Bond Program Audit for the FYE August 31, 2010.<br>• FY 2010 Unencumbered Fund Balances. | Fieldwork | Report due in December 2010. |
| HUD | A review of the disaster recovery program's fundability documentation, subrecipient management and policy controls for fraud, waste and mismanagement. | Reporting | HUD conducted this monitoring visit the week of October18, 2010. |
| HUD-OIG | To determine whether the Department monitored the program management firm (ACS) to ensure compliance with federal and state requirements and if ACS has properly supported costs submitted for reimbursement. | Planning | HUD-OIG has conducted an entrance conference for the preliminary survey (planning) work. |
| Treasury | An on-site compliance review of the Section 1602 program (Housing Tax Credit Exchange Program). | Reporting | The Treasury conducted this monitoring visit September 8-9, 2010. |
| DOE | The DOE reviewed weatherization activities as part of their quarterly monitoring. | Reporting | DOE conducted this monitoring visit the week of September 27, 2010. |
| DOE | The DOE reviewed weatherization activities as part of their quarterly monitoring. | Planning | DOE plans to conduct this quarterly monitoring visit the week of November 15, 2010. |

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Presentation and discussion of recent external audit reports.

## Required Action

None, information item only.

## Background

HUD Monitoring of the Neighborhood Stabilization Program

Overall, HUD staff concluded that the state's program was very well managed and the Department's staff was knowledgeable about the NSP requirements.

- The deadline for obligating NSP funds was September 3, 2010. HUD staff indicated that the Department fully obligated its NSP funds by the deadline.
- HUD reviewed the Department's policies and procedures for the NSP program and stated that that they were very comprehensive and should ensure, if followed, that NSP activities meet the program requirements.
- HUD's testing found no instances of ineligible properties.
- There were no findings identified during HUD's review; however, there was one significant concern with respect to projects proposed by two subrecipients.
    - Several instances were identified by HUD where thorough property inspections were not conducted and accurate work specifications and cost estimates were not developed. Without these items the state cannot assure compliance with the NSP property standards, procurement requirements, and cost reasonableness determinations cannot be made.
      HUD recommended that reviews of property inspections and cost estimates contain sufficient attention to detail to ensure that rehabilitation needs are fully identified and that federal procurement requirements are being met.

DOE Financial Monitoring of the Weatherization Assistance Program

DOE conducted a desk audit for the 2010 financial review. They had no findings and found that the Department is in compliance with all policies, procedures and guidance related to the financial management of the Weatherization Assistance Program's ARRA grant.

DOE June 2010 On-Site Monitoring of the Weatherization Assistance Program

DOE conducted a monitoring visit to the records maintained by the Department, review the award file, check performance measure data and review production and expenditures. While DOE did not have any findings, they identified nine concerns:

- Vacancies are still not being filled for crucial positions such as program officers and monitors. DOE suggested that the Department consider filling these positions from within the Department, or outsourcing these positions to a contractor.

- There is a disconnect between program officers in the field and fiscal staff who release funds to sub-grantees. This process may not be adequate to control wasteful spending.
- DOE believes that the threat of de-obligation is not a sufficient deterrent to ensure the necessary quality and volume of production. DOE suggested that the Department consider not releasing funds to poorly performing subrecipients until Department staff have inspected the work.
- The energy audits used to determine weatherization measures are not consistent and may result in less cost effective measures being performed. The Department and its sub-grantees need to perform better audits.
- Some sub-grantees use a priority list, but not all of the measures on the list are implemented completely or correctly. DOE recommended that the Department increase its efforts to ensure the priority list is used correctly.
- A more comprehensive method of conducting energy audits for multi-family units is needed. DOE suggested that the Department contract with engineering firms with energy efficiency experience to perform these audits.
- The weatherization field guide is not being implemented by sub-grantees. The Department should require sub-grantees and contractors to follow the field guide.
- The $6,500 limit on weatherization activities should be an average cost across all units statewide and not a per home limit. The Department should convey this message to its sub-grantees.
- Deficiencies were found in some of the files reviewed by DOE. The Department should provide a checklist to ensure that the files contain all of the necessary documentation.

## Recommendation

None, information item only.

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
801 Cherry Street, Unit #45, Ste. 2500
Fort Worth, TX 76102
Phone (817) 978-5933 - Fax (817) 978-5559
***www.hud.gov***

Michael Gerber, Executive Director
Texas Department of Housing and Community Affairs
P.O. Box 13941
Austin, Texas 78711-3941

Dear Mr. Gerber:

SUBJECT: Monitoring Visit – Neighborhood Stabilization Program
Grant Number: B-08-DN-48-0001

This letter provides the results of HUD's onsite monitoring of the state's Neighborhood Stabilization Program (NSP) on August 23-26, 2010. The review was conducted by Stephen Eberlein, Program Manager, and Linda Hadley, Senior Community Planning and Development Representative. The results of the review were communicated to state staff during the exit conference that was held on August 26, 2010.

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

Enclosed you will find the results of our review. Overall, the state's program was very well managed and staff was knowledgeable about the NSP requirements. Our file sample found no instances of ineligible properties. There were no findings identified during our review; however, there was one significant concern with respect to projects proposed by two subrecipients.

Technical assistance was provided to state staff in a number of areas to include meeting the NSP obligation deadline which was September 3, 2010 and overseeing proposed rehabilitation activities.

Please extend our appreciation to your staff for their work with this program and their cooperation and assistance during this review. While a formal response is not required for the

concern noted in the report, we would appreciate the state keeping this office informed about its review of the activities identified in the concern.

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

Sincerely,

Katie S. Worsham
Director

Enclosures

cc:

Tom Gouris
Marni Holloway

cc:
6ADM1 Official ’10 Monitoring File (w/cy of report and attachments)
6AD Read File
6ADM1 Hadley (w/cy of report)
6ADM1 Eberlein (w/cy of report)
6AM Babers

CONCURRENCES AND DATES:

| 6ADM1 | 6ADM1 | 6AD |
|---|---|---|
| Hadley | Eberlein | Holtberg |
| _____ | _____ | _____ |

# Monitoring Report
# Neighborhood Stabilization Program
# State of Texas
# August 23-26, 2010

**Overview**
The State of Texas utilizes NSP funds to undertake a full range of eligible activities within areas of priority designated by the state. Activities are funded through state agencies, units of local government, housing authorities, non-profit subrecipients and private developers. The state has awarded NSP funds to projects involving existing single-family and multi-family housing as well as vacant residential properties. The program encompasses homeownership, rental housing and land banks. Funds have been allocated through multiple funding rounds as the state has enforced performance standards in order to meet NSP obligation deadlines. The majority of the NSP-assisted activities are anticipated to generate program income which will revert to the state for reallocation to additional NSP activities.

**Program Progress**
At the time of the review the state had recorded obligations of $40,108,430.55 or 39 percent of its NSP allocation in the Disaster Recovery Grant Reporting (DRGR) system. NSP expenditures at the time of the review totaled $5,312,559.07. In discussions with staff and management the reviewers were advised that sufficient contracts were in process to complete the full obligation of the $101,996,848 NSP allocation as well as an estimated $10,000,000 in program income by the September 3, 2010 obligation deadline. A subsequent review of NSP obligations on September 7, 2010 showed that the state had fully obligated its NSP funds in DRGR.

The NSP program requires that not less than 25 percent of the NSP allocation be used for the purchase and redevelopment of abandoned or foreclosed upon homes and residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of area median income. The state has emphasized such activities in its allocation plan and has recorded obligations totaling $63,368,043.05 or 62 percent of its NSP allocation.

The state's performance in the areas of overall obligations and set-aside activities is excellent.

**NSP Policies and Procedures**
A review of the policies and procedures utilized by the state for its NSP activities found that they were very comprehensive and should ensure, if followed, that NSP activities meet the program requirements. The state has developed a very structured process with extensive controls to ensure NSP project eligibility, national objective compliance, long term affordability and compliance with cross-cutting requirements. Staff has conducted a number of orientation workshops for NSP recipients as well as on-site technical assistance visits to ensure local capacity exists to properly administer the funds. NSP agreements incorporate performance benchmarks and it was evident during the review that NSP recipients are being held to their performance standards. Policies and procedures are also in place for both remote and on-site monitoring of NSP activities.

As the state moves forward with the implementation of NSP activities it will be vital that staff have sufficient training in both its policies and procedures and the overall NSP requirements. Technical assistance resources are available through this office to assist with increasing internal capacity to oversee and monitor NSP activities. The state is encouraged to utilize this assistance as its program progresses.

**Project File Reviews**

A sample of project files from activities being undertaken by state recipients and subrecipients was reviewed to determine whether the NSP requirements were being met as projects were implemented. The file sample included rental activities, redevelopment of existing units for homeownership, acquisition of vacant land for future development and the redevelopment of blighted properties.

As applicable, the project files were generally well documented and NSP requirements such as foreclosure status, appraised value and purchase discount were found to have been met. The state was found to have been securing NSP affordability requirements through project specific loans and land use restrictions.

In the area of NSP-assisted rehabilitation it was found in some instances that state staff was not conducting a detailed review of property inspections and work specifications submitted by NSP recipients. The problems noted in the file sample resulted in the issuance of the following concern.

**CONCERN #1 – Reviews of property inspections and cost estimates need to be undertaken with sufficient attention to detail to ensure that rehabilitation needs are fully identified and that federal procurement requirements are being met. Failure to address these issues could result in ineligible projects that do not provide clients with safe, sanitary, long term housing and expose the program to inefficient use of funds and potential fraud. Had NSP funds been disbursed for construction activities on the projects noted below a compliance finding would have been issued.**

**Discussion:** In examining project files several instances were found where it was evident that thorough property inspections were not conducted and accurate work specifications and cost estimates were not developed. Without these items the state cannot assure compliance with the NSP property standards, procurement requirements, and cost reasonableness determinations cannot be made.

Examples:

- Affordable Homes of South Texas – 310 Mississippi, Alton, TX
    - The housing quality standards inspection notes that all plumbing and related fixtures are in working order.
    - The housing quality standards inspection notes that the heating system is in working order.
    - A TREC inspection conducted later in the same day notes that there is no water meter present and no water service available.

    - The TREC inspection notes that the heating system is not in working order.
    - The work write-up and cost estimate lack specificity and do not list the locations of items to be repaired. The work write-up and cost estimate do not include deficiencies noted on the inspection reports that affect the habitability of the unit.
    - The cost estimate includes as rehabilitation items tasks that should have been performed as part of the initial inspection and the costs for these items cannot be supported. Examples include charges of $65 per room to test the operation of light switches and faucets.
    - $840 of the estimated $2,990 rehabilitation budget is duplicative inspection costs.
    - It appears that the entity tasked with undertaking the rehabilitation was also responsible for the cost estimate.
- Housing Authority of the County of Hidalgo - 3916 Mac Drive, Weslaco, TX
    - Inspection conducted 12/28/2009 notes electricity and water were not turned on yet the report shows all electrical and plumbing systems passed.
    - The inspection has all available types of foundations checked, not the specific type for this unit.
    - The general health and safety section notes no evidence of termites found but later in the report termite damage is identified in the living room floor.
    - The general health and safety section notes that all painted surfaces are free of deteriorated paint. Within the report failed paint is noted in the living room, kitchen, bathrooms and bedrooms.
    - The report indicates that the heating and air conditioning is functioning. Later in the report it indicates that the AC unit is missing from the house.
    - The work write-up and cost estimate are non-specific and done by trade.
    - There is no evidence that the rehabilitation work was competitively bid.
    - The cost estimate is exactly the same as the awarded bid.
- Housing Authority of the County of Hidalgo –
    - The following projects proposed by this entity have equally deficient inspections, rehabilitation specifications, lack of detailed costs estimates and do not appear to have been competitively bid. In each case the proposed rehabilitation contract amount is identical to the cost estimate.
        - 4009 Borg Drive, Weslaco, TX
        - 445 Cripple Creek Circle, Alamo, TX
        - 400 Steffy Drive, Weslaco, TX
        - 4015 Borg Drive, Weslaco, TX
        - 3909 Conners Drive, Weslaco, TX

**Recommended Action:**
The state advised that work had not begun on the units in question and NSP construction costs had not been incurred. It is recommended that the state withhold its authorization to proceed with rehabilitation activities for the above units and others funded through these entities until such time as comprehensive rehabilitation inspections are conducted by a qualified individual and detailed construction specifications and cost estimates are prepared. Once these tasks are completed the work must be competitively procured in accordance with federal requirements. NSP funds should not be disbursed for any costs related to the previous inspections and cost

estimates. Given the errors that occurred with these projects, a re-examination of other NSP-funded projects of this type is recommended.

During the exit conference it was strongly recommended that staff responsible for the review and approval of NSP projects involving construction activities obtain training in basic construction management. State staff indicated that they would seek to take advantage of a workshop on the subject being presented through their HOME program in the coming weeks. It is also recommended that staff processing NSP construction activities pay particular attention to the procurement process so that conflicts of interest, favoritism, and potential fraud are avoided.

Additional technical assistance can be provided by this office in these areas if needed.

**Limited Fair Housing Review**

A limited fair housing review was conducted to ensure that the state had policies and procedures in place regarding the affirmative marketing of its NSP-assisted activities to potential clients, methods for assisting persons with limited English proficiency, and a system for recording the race, ethnicity and household composition of those receiving NSP assistance.

The state has incorporated policies and procedures into its NSP program that are similar to those used for its HOME program activities. These procedures apply to activities funded directly by the state as well as those undertaken by state funded entities. The materials examined were found to meet the applicable requirements.

NATIONAL ENERGY TECHNOLOGY LABORATORY
Albany, OR • Morgantown, WV • Pittsburgh, PA

U.S DEPARTMENT OF ENERGY

October 25, 2010

Brooke Boston
Deputy Executive Director for Community Based Programs and Recovery Act
Accountability & Oversight
Texas Department of Housing and Community Affairs
221 East 11th Street
Austin, TX 78701

SUBJECT: Financial Monitoring Report under the Weatherization Assistance Program (WAP) American Recovery and Reinvestment Act (ARRA) Grant Award No. DE-EE0000094 with the State of Texas

Dear Mr Boston:

The fiscal year 2010 financial monitoring of Texas's Weatherization Assistance Program, has been completed via a desk audit A copy of the report is enclosed. The results of the programmatic review were provided under separate correspondence

Thank you for your cooperation throughout the monitoring process. If you have any questions or concerns regarding the enclosed report, please contact your Contract Specialist, Kellyn Cassell at 304-285-4554 or via email at kellyn.cassell@netl.doe.gov. I look forward to continued interaction with you in the administration of this grant

Sincerely,

Lisa Kuzniar

Lisa A. Kuzniar
Contracting Officer

cc: Paul Jiacoletti, GFO
Jason Masters, GFO
Kellyn Cassell, NETL

3610 Collins Ferry Road, P.O. Box 880, Morgantown, WV 26507
kellyn.cassell@netl.doe.gov • Voice (304) 285-4554 • Fax (304) 285-4683 • www.netl.doe.gov

**STATE OF TEXAS**
**DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (TDHCA)**
**WEATHERIZATION ASSISTANCE PROGRAM**
**ARRA AWARD – DE-EE0000094**
**FINANCIAL MONITORING REPORT**

**October 25, 2010**

## FINANCIAL MANAGEMENT AND ADMINISTRATION

Information contained in this Financial Monitoring Report is based on the Grantee's responses received via the onsite monitoring checklist, the financial monitoring conference call, and written/oral communications with the Grantee. The state of Texas provided thorough answers that could be verified through Uniform Statewide Accounting System (USAS) rules; 24 CFR PART 85 Administrative Requirements for Grants and Cooperative Agreements to State; the Window on State Government Procurement Manual; the independent audit completed on December 15, 2009; the Comptroller's Payroll Policy and Procedures Guide; the Grantee Personnel Policies and Procedures Manual; the Texas State Record Retention Schedule; copies of subcontracts made available for the purpose of this review; and copies of payroll. The Grantee was both prompt and courteous in providing all requested documents and information.

### ACCOUNTING SYSTEM

The Texas Department of Housing and Community Affairs (TDHCA) adheres to the state's financial policies and procedures, which are located in the Standard Operating Procedure Manual. This manual was made available via an electronic file for the purpose of this review.

USAS is the accounting system of record for the state of Texas, and is administered by the Comptroller of Public Accounts. USAS rules are available online at: http://info.sos.state.tx.us/pls/pub/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=34&pt=1&ch=5&rl=210.

The Grantee's financial system is capable of tracking and reporting American Recovery and Reinvestment Act (ARRA) funds separately from other funds. TDHCA established specific index coding for each ARRA grant and all ARRA-related revenues and expenditures are uniquely identified within the Grantee's accounting system. ARRA activity is also reported separately in the Schedule of Expenditures of Federal Awards (SEFA).

Federal funds and General Revenue appropriations follow a modified accrual basis of accounting.

STATE AUDITS

Audits are conducted annually by the State Auditors Office (SAO). The most recent independent audit was completed on December 15, 2009. The most recent Office of Management and Budget (OMB) Circular A-133 audit was completed for the fiscal year ending August 31, 2009. There were no findings reported.

PAYROLL

The Grantee follows the TDHCA Standard Operating Manual for payroll requirements and provisions. These policies are consistent with policies as stated in the Comptroller's Payroll Policy and Procedures Guide.

Each month a quality assurance check is performed by a Human Resources (HR) Specialist for all Payroll Action Forms (PAFs) that are processed for that month. The HR Specialist reviews the payroll master and the genesis system to ensure that each PAF processed is accurately recorded and entered. Once the information is verified for each PAF, a review is also done by the HR Manager. Copies of the PAFs and monthly payroll master are filed in HR.

Payroll records were reviewed for a three-month period and compared against the approved budget. The review indicated that time being charged and labor categories are consistent with the approved budget.

PERSONNEL

The Grantee has written personnel policies and procedures in the TDHCA Personnel Policies and Procedure Manual. Each employee has access to the manual via the TDHCA intranet site.

The Grantee provides a standard system for processing and recording employee leave activity in accordance with the state leave policy. This information is available via the TDHCA intranet.

EQUIPMENT AND VEHICLES

TDHCA has standard operating procedures for purchasing/procurement. The manual was provided electronically for the purpose of this review. The Grantee maintains a master inventory list.

Prior to any equipment acquisition or disposition, current Federal, program, and grant provisions are reviewed (including cost principles); required approvals are obtained; and state disposition procedures are followed.

Vehicles purchased by the Grantee are used solely for the Weatherization Assistance Program (WAP). Vehicle purchases require prior approval from DOE.

MATERIALS AND SUPPLIES

TDHCA has standard operating procedures for purchasing/procurement. The manual was provided electronically for the purpose of this review. All purchases require prior supervisory approval and are made in accordance with the policies and procedures outlined in the Procurement Manual, as well as any other applicable Federal requirements.

PROCUREMENT

The Grantee follows the Comptroller's procurement policies outlined by the Window on State Government Procurement Manual, which is available online at: http://www.cpa.state.tx.us/procurement/pub/manual/. The majority of subcontracts under this WAP ARRA grant award were awarded on a competitive basis.

Subcontracts

A sampling of contracts to subawardees was reviewed for the required Federal flow-down provisions. The Grantee was found to be in compliance.

Subgrantee Financial Monitoring

TDHCA performs financial monitoring on all their subgrantees on an annual basis. Procedures are in place to ensure a review is completed of contractor invoices, checks showing payment to the contractor, the general ledger showing entry of the billing to the correct budget category, and the Monthly Expenditure and Production reports to ensure accuracy.

TDHCA is in compliance with the appropriate Davis Bacon Act requirements. Certified Davis Bacon payrolls are tracked weekly. The files are reviewed for compliance and accuracy. Current Davis Bacon wage determinations are being utilized and the Grantee's award contract has been amended to include the latest revisions to the wage determinations and the required clauses.

The Grantee provided snapshots of their invoices and payment process. The invoices have been reviewed and appear to be consistent with their policies and procedures.

RECORD RETENTION

The Grantee follows the guidelines indicated in the Texas State Record Retention Schedule, which requires records to be retained for three years. This schedule is available online at: http://www.tsl.state.tx.us/slrm/recordspubs/rrs3.pdf.

SUMMARY

The Recipient had no findings in their most recent audit and no findings from this review. The results of this Financial Monitoring Review found that the Recipient is in compliance with all the established policies, procedures, and guidance related to the financial management of this WAP ARRA grant

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

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

**On-site Monitoring Report for State of Texas**
**Dates of Visit: June 21st to 25th, 2010**

## August 24th , 2010

# Table of Contents

# 1 Executive Summary

Between June 21st and June 25th, 2010, the State of Texas's grant, EE-0000094, was monitored by Project Officers for the Department of Energy, Weatherization Assistance Program. This monitoring trip performed multiple functions. The primary functions were to monitor the records that are retained by the State, review the award file, check performance measurement data collection and review a breakdown of production and expenditures.

The main concern is that production without quality does not serve this program at all. While production numbers are increasing, quality has no. The problem stems from management. While the DOE agrees that TDHCA has the knowledge to deliver a quality product, multiple implementation factors are not being correctly addressed nor solved in order for this Weatherization Program to produce satisfactory weatherized units on a consistent basis with regard to volume, per unit cost and timeliness.

Significant concern was raised regarding monitoring. As such, the DOE wanted to assess the new monitoring guide implementation and what concerns it may be raising. Staffing was another major concern. The Department of Energy wished to assess which positions were filled, which positions were unfilled, why those positions were unfilled and/or when action would be taken to fill those positions. The DOE also needed to assess what actions were being taken to respond to production complaints. There is significant concern regarding multifamily production progress including energy audits.

The DOE has 9 concerns in conjunction with our recommendations. These concerns and recommendations are listed detail below and in the report.

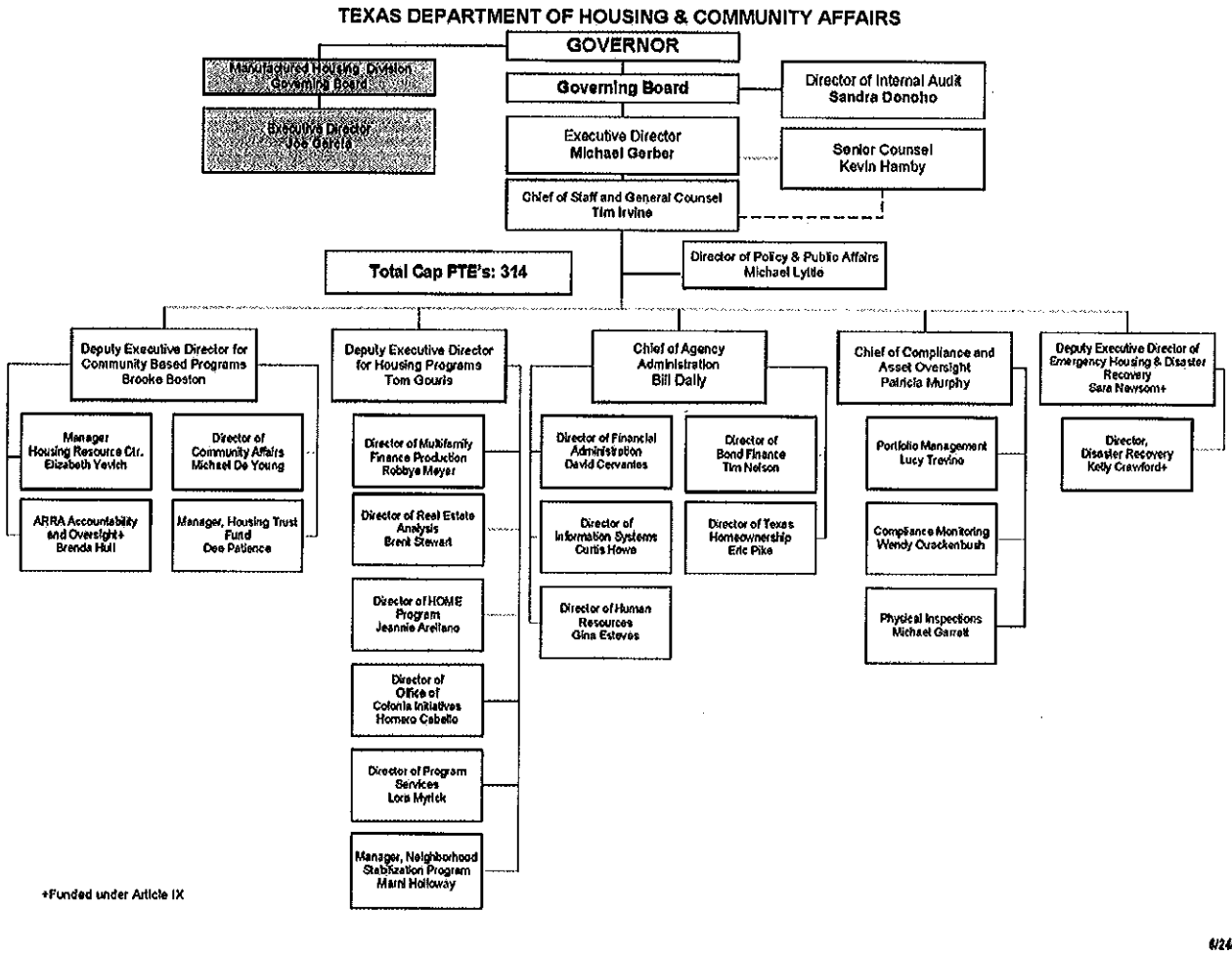
# DOE Recommendations

# 2 Programmatic and Administrative Management

## 2.1 Organization

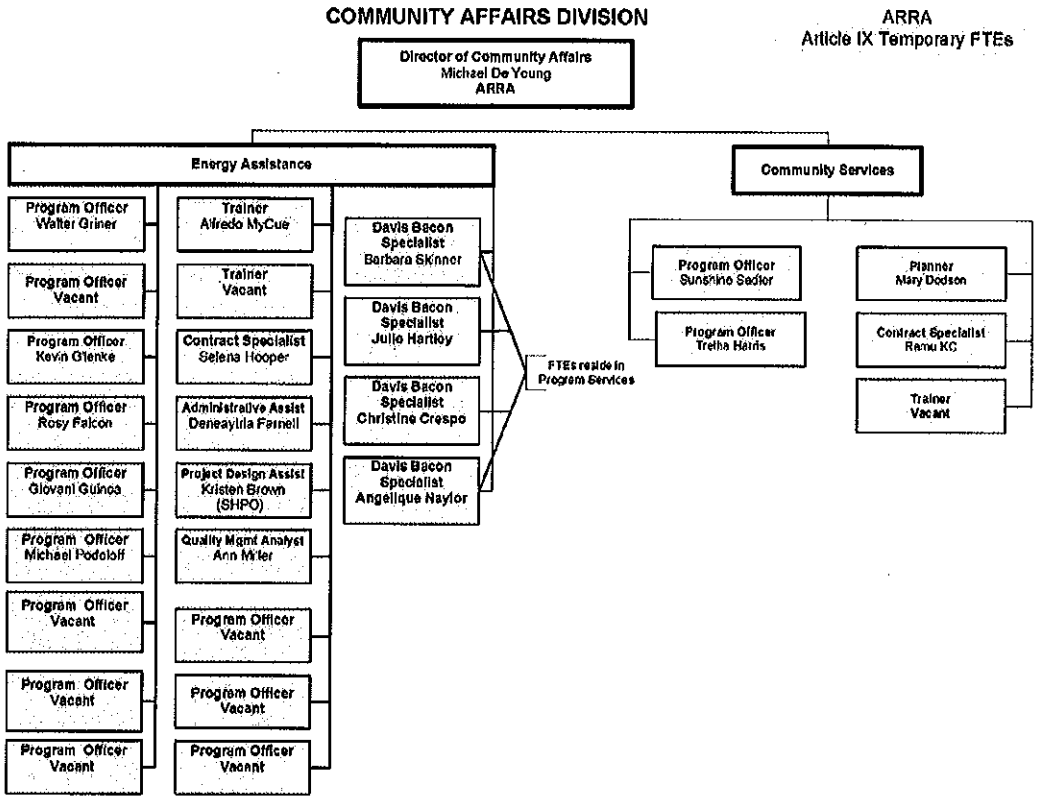
An organizational chart for the Texas Department of Housing and Community Affairs (TDHCA) is included below. A review of the organizational chart and the positions in the approved grant budget was performed. No abnormalities were observed.

Figure 1. Organizational Chart for Texas Department of Housing & Community Affairs




The Project Officers conducted an entrance briefing with Brooke Boston – Deputy Executive Director, Sharon Gamble – Energy Assistance Manage, Stephan Jung – Project Manager, David Johnson – ARRA Specialist, Ann Miller – Quality Mgmt Analyst, and David Cervantes – Financial Administrator on the first day. The exit briefing included the same individuals listed above as well as Michael DeYoung – Director of Community Affairs, Michael Gerber – Executive Director, Tim Irving – Chief of Staff & General Counsel and Nicole Elizando – Internal Audit Project Mgr.

Figure 2. TDHCA Organizational Chart for Community Affairs Division




## 2.2 DOE Organizational Observations and Concerns

There are several organizational observations that the DOE project officers made.

DOE Concern #1:

The first observation is that vacancies are still not being filled for crucial roles that will help Texas deliver consistent and appropriate management and technical knowledge to their subgrantees. While TDHCA is working with Texas legislature to resolve certain hiring issues, TDHCA is well past the time to start looking at alternative means to hire employees to fill vacant positions. The DOE offered a suggestion that if qualified workers cannot be identified and hired through normal channels; then TDHCA may start exploring the use of a head hunter or a temporary placement agency to fill those positions. Another suggestion was to source these employees from within TDHCA by bringing internal employees from office positions into program manager positions that need to be filled. New hires could then back-fill the lower positions through normal employment solicitations. A third suggestion was to outsource these positions to a contractor. An outside contractor would be able to fill the need for a specified time, usually at a lower overall cost to the State of Texas. In reviewing the positions that were still left open, it was noted that the starting salaries were not competitive with those that were offered by surrounding states. If TDHCA were to increase the starting salary and the grant provides sufficient funding for this, then they may find they receive a higher quality applicant. The result of not having all of their project monitor positions filled is clear. The current project monitors are working at or beyond their capacity and

production quality is suffering because the current number of monitors does not have the capability to reach all of the subgrantees that they need to.

**DOE Recommendation #1: Fill Project Officer Positions**

DOE encourages Texas Housing Division to fill the project officer positions to improve monitoring.

DOE Concern #2:

An organizational concern is the disconnect between in-field program officers and fiscal managers releasing funds to subgrantees. TDHCA may have set up a system that does not have enough physical checks-and-balances to avoid wasteful spending by the subgrantees and their contractors. It is understood by the DOE that there is segregation between in-field program officers and financial administrators who can control the flow of funds to subgrantees. The connection between the two flows through Mr. DeYoung to the fiscal arm of Texas government. It is unclear at this time who the specific financial administrators are that control the flow of funds. If TDHCA wants to control quality by restricting funds based on performance, communications between the program officers and fund distributors should be improved.

**DOE Recommendation # 2: Improve Communication between Program Officers and Fiscal Control Personnel**

DOE encourages the Texas Division of Housing and Community Services to improve organizational communication between program officers and financial control personnel so that in-field poor performance signals monitored by program officers are immediately acted upon and fiscal controls can be applied.

## *2.3 General Administration and Program Management*

### 2.3.1 Plan Development

The Department of Energy feels that developing a cohesive plan and executing that plan using the Program Management Staff will be the most effective way of increasing quality, implementation, production and volume for the weatherization grant. The development of a cohesive plan that TDHCA enforces is critical. The DOE is willing to assist in education efforts for the Grantee and subgrantees and their program officers on guidelines and best practices. The Department of Energy believes that the education and communication between contractors, subgrantees and TDHCA will markedly improve. There is still a question of enforcement.

DOE Concern #3:

The DOE has been led to believe that there is in sufficient effectual enforcement to ensure appropriate quality and volume production. The de-obligation clause does not seem a sufficient deterrent to produce on-demand, quality weatherization production. One solution may be to pay-for-performance. If invoices are being submitted to TDHCA for reimbursement or probable production costs from a known poorly performing subgrantee, the TDHCA finance arm should not release funds until quality assurances are conducted by TDHCA program officers. This action would signal to all subgrantees that performance

based pay is being enforced. This will cause some contractors to separate themselves from weatherization work, but it will give rise to more consistently competent contractors. It is understood that this would cause prospective gaps in production, but the justification is well accepted by DOE.

The question arises how do you compensate for a de-obligated agency? The DOE understands that TDHCA is concerned that by de-obligating an agency all production from that sector will cease. From the DOE's perspective, if the agency is committing fraud, waste and/or abuse, then de-obligation should be immediate regardless of losing production, since the production is inappropriate. The DOE strongly encourages TDHCA to develop a plan to enforce de-obligation when a situation such as the one in Caprock CAA arises. The DOE understands that TDHCA has attempted to manage the situation in Caprock CAA on numerous occasions without success. It seems evident to the DOE that TDHCA should completely de-obligate this subgrantee. But, the plan to compensate for their removal is a significant question. While the DOE understands that TDHCA does not want their production numbers to drop, the quality of production is of more importance to DOE. The DOE encourages TDHCA to outsource production quotas for the Caprock CAA subgrantee to either an adjacent provider or a new contractor with additional oversight by TDHCA until quality production is assured.

**DOE Recommendation 3: De-obligate Caprock CAA and Contract Replacement Weatherization Crews**

DOE encourages Texas Housing Division to develop a cohesive plan to replace the work that the Caprock CAA subgrantee was contracted to perform with either surrounding agencies or a new contractor.

### 2.3.2 Policy Advisory Council (PAC)

TDHCA has established a PAC pursuant to 10 CFR 440.17. Texas might seek First Nation representation on their council in the future. Currently, the DOE concerns regarding tribal representation on the PAC have been addressed. DOE encourages creative collaboration whether through the PAC or state network deeming it vital to program success.

### 2.3.3 Feedback and Reporting

TDHCA voluntarily submits weekly production numbers to DOE, which allows DOE a more real-time understanding of Texas' production. This is greatly appreciated. Quarterly and Monthly financial and program reporting as well as annual reports are submitted in a timely manner and are compliant with Office of Management and Budget (OMB) Guidance.

## *2.4 Technical Management and Administration*

### 2.4.1 Energy Audits

DOE Concern #4:

The Texas Housing Division is approved to use a priority list and is the process of submitting approvals for both the NEAT and MHEA audits. The NEAT audit is being used without formal approval. There are noted educational issues concerning the correct implementation of these audits by TDHCA personnel and subgrantee personnel. Texas was approved to use EZ, but that permission has since lapsed. Mr. DeYoung has indicated that there are several agencies that would prefer to use EZ because they already possess a degree of aptitude with that audit. The main concern that the DOE has with using multiple audits is that some auditors have misused a particular audit to bias the result toward less cost-effective

measures, such as windows and doors. This lessens the overall return on investment ratio and negates opportunities to perform weatherization measures that deliver a better overall Savings to Investment Ratio (SIR). Previous monitoring trips have uncovered this and DOE has yet to see how TDHCA can resolve this and prevent it from reoccurring. .

One observation is that TDHCA, their subgrantees and the inspectors need to perform better audits. Their training schedule indicates that there are many opportunities to learn NEAT, but there are issues with in-field implementation. Possible problems include trainers are not competently delivering the education, the students do not understand how to apply the knowledge delivered, auditors are modifying the energy audit inappropriately or the parameters need to be modified for that unique area and the auditors don't know or understand how to perform this task. During this last monitoring trip, Simonson Management Services (SMS) provided a review for TDHCA subgrantee Sheltering Arms, Inc. Their review demonstrated lack of knowledge on how auditors could properly use the NEAT software package. The training was welcomed by the subgrantee and provided more aptitude for the subgrantee personnel conducting future audits.

**DOE Recommendation 4: Schedule More Comprehensive Energy Audit Training**

DOE encourages Texas Department of Housing and Community Affairs to schedule more training sessions for Energy Auditors, estimators, technicians and field data gatherers. DOE understands that these software packages can be difficult to learn. TDHCA should schedule more on-site training opportunities by contracting experts to teach Texas field operators.

DOE Concern #5:

A priority list is used by some subgrantees, but it has been noted in past inspections that not all of the measures listed on the priority list are being implemented completely or correctly. The DOE understands that a priority list is necessary in instances where inspectors do not fully comprehend energy audit software, but TDHCA needs to increase their efforts to insure proficient application of the priority list. While it is easier for weatherization assessors to use a priority list, an energy audit may prove more effective. TDHCA should strive to train all assessors on energy audits. In the interim between producing competent users of energy audit software, priority lists are an invaluable tool toward producing weatherized units when used appropriately.

DOE Recommendation #5: Schedule additional training on the proper use of energy audits.

DOE encourages Texas Department of Housing and Community Affairs to schedule more training sessions for Weatherization personnel and contractors who use the priority list. TDHCA understands that these software packages can be difficult to learn. TDHCA should also schedule more on-site training opportunities.

Concern #6:

With the increase in multifamily units being weatherized, a more comprehensive multi-family audit will be needed. The TREAT audit is a possible candidate, but significant training is needed. Also, it has been recommended that TDHCA solicit local engineering firms with energy efficiency experience and with the goal to promote greater energy efficiency. These firms could perform energy audits on multifamily units on an as needed basis. Since the training for TREAT or another multifamily audit software program may consume significant time, contracting these engineering firms would be cost effective in the short-term

and provide greater quality. This is another option for TDHCA to allow subgrantees to contract large multi-family projects to independent engineering firms until energy auditors become proficient with multifamily auditing.

**DOE Recommendation #6: Outsource Multifamily Energy Audits for the Short Term**

DOE encourages Texas Housing Division to outsource multifamily energy audits for the short term until TDHCA and subgrantees are competent in performing energy audits for multifamily units.

### 2.4.2 Field Work

A consistent basis for weatherization services has been established by developing a Weatherization Field Guide and an updated program Operational Manual. These two documents provide the backbone for all weatherization work. The Project Officer noted that while training is being provided by accredited institutions, in-field experience is considered by all to be more comprehensive.

Concern #7:

The Weatherization Field Guides for onsite reference is not being implemented by TDHCA subgrantees. It is understood that there was some discrepancy with the Texas Weatherization Field Guide as far as the guidelines being published for public opinion first before the Guideline was finalized. It is the DOE's position that Texas needs to adopt Field Standards or a Field Guide that allows basic prescriptions of the DOE's best practices common to weatherization. TDHCA also needs to require subgrantees and contractors to follow the Texas Field Guides. If these are put in place, TDHCA has the ability to disallow any cost that it can justify and defend as uncommon to these standards. In this way the subgrantees and contractors know what the minimum expectations for proper Weatherization are. This bolsters the monitoring effort because Inspectors can know and measure the efficacy of the weatherization effort based on consistent standards in effect by the Grantee.

There is still significant concern that the contractors are not adhering to the chronology of the priority list. TDHCA must enforce the chronology of the priority list and energy audits to effectively maximize the Savings-to-Investment Ratio (SIR). DOE quality assurance visits to weatherized homes showed that high-value SIR measures were skipped in favor of lower measures. In future monitoring visits, if this concern is found again, this will result in a finding and costs may be disallowed.

**DOE Recommendation #7: Enforce Chronology of Priority List or Energy Audit**

DOE encourages Texas Housing Division to ensure that priority lists and energy audits are followed in chronological order to maximize SIR.

Due to the federal administration's commitment to "unprecedented transparency" and responsible stewardship of ARRA funds, additional Quality Assurance (QA) visits are being conducted and will be performed by the DOE Project Officer and may also include one or more contractors as needed to satisfy new quality assurance review requirements. TDHCA inspection staff expressed sincere concern about the logistical and financial burden to accommodate contractors conducting QA visits after final inspection was conducted by TDHCA inspectors. Texas has a fairly ambiguous transient population occupying low-income homes. As such, TDHCA inspectors cannot guarantee that QA results measured at their inspection will mimic a QA inspection by a DOE contractor or Project Officer. Doe will take this concern into consideration.

### 2.4.3 Rental Property

Qualifying rental properties are weatherized in accordance with DOE protocols.

### 2.4.4 Health and Safety

The Texas Housing Division has a fully comprehensive health and safety plan that follows all appropriate federal and state guidelines. It may be reviewed as part of their Master File in their grant application.

### 2.4.5 State Historic Preservation

TDHCA has a working agreement with the State Historic Preservation Organization. TDHCA has had a few problems weatherizing historic units and inappropriately changing the structure's façade. These instances have been rectified.

## *2.5 Monitoring*

The State of Texas, Texas Housing Division has an established plan to monitor each subgrantee at least once every 12 months. The TDHCA monitors financial, operational, administrative and inventory records retained by the subgrantee. As of June 21st, TDHCA had monitored 42 of 44 subgrantees. The monitoring plan has been a source of particular emphasis, because it has been noted in past monitoring trips by the DOE that the monitoring plan was insufficiently assessing production volume, cost effectiveness and quality. As such, DOE Project Officer, Paul Jiacoletti has worked with TDHCA representative Stephen Jung to build a better monitoring plan.

DOE concern #8:

The monitoring instrument poses a problem which is evidenced by the question "Is the current average cost per unit at or below the allowable maximum for the DOE and LIHEAP contracts? ($6,500 for DOE and $4,000 for LIHEAP)". After speaking with two of the subgrantees monitored on this trip, their perception is that not only should they not exceed $6,500 per unit in expenses, but minimizing the expenses as much as possible is a favorable goal. This perception needs to be addressed immediately by TDHCA. The $6,500 is an average cost per unit which was identified in Weatherization Program Notice 91-B and should apply over the entire Texas ARRA weatherization grant. DOE expects that there will be some units that exceed $6,500 and some that don't. It is the average cost that matters, along with providing the most cost-effective measures needed. Since Weatherization is a one-time service with tight limitations on re-weatherization, as many cost-effective measures as possible should be completed. If subgrantees believe that minimizing per unit costs is a program goal, then not only will they not maximize the measures they could install in a unit, but the program as a whole will have to either weatherize more units to consume all of the ARRA funds or return the unused funds to DOE. TDHCA needs to deliver the message strongly to their subgrantees that there is no maximum per unit cost; that $6,500 is a state-wide average. TDHCA also needs to develop and implement an accounting/management process to monitor and manage the state-wide average. Subgrantee need to maximize per unit expenditures in single family structures while maintaining a Savings-to-Investment Ration (SIR) above 1.

**DOE Recommendation #8: Communicate to Subgrantees that $6,500 is not a per unit maximum cost.**

DOE encourages Texas Housing Division to educate subgrantees and contractors that $6,500 is not a per unit maximum cost. If there are measures to perform in a unit being weatherized that have a SIR above

1, then they should be installed with the realization that the total cost per unit may exceed $6,500. Since TDHCA will be weatherizing multifamily units, DOE realizes that the average cost for a multifamily unit will most likely be below $6,500 per unit, so to eventually end up at an average per unit cost of $6,500 per unit, the most likely method to achieve that goal will be to exceed $6,500 per unit in single family homes so long as the SIR is greater than 1 for all installed measures.

**Table 1. Subgrantee Monitoring Dates**

| Subrecipient Name | Date | Subrecipient Name | Date |
|---|---|---|---|
| [redacted] | 8-Apr-10 | Greater East Texas | 23-Jan-10 |
| Bee CAA | 7-May-10 | Hill County CAA | 4-Jun-10 |
| Big Bend | 30-Apr-10 | Institute of Rural Development | 14-May-10 |
| Bravos Valley CA | 26-Mar-10 | Lubbock, City of | 1-Apr-10 |
| Cameron Willacy Cos | 12-Mar-10 | Nueces County CAA | 5-Mar-10 |
| Combined CA | 16-Apr-10 | Panhandle Comm Srvs | 1-Apr-10 |
| Concho Valley CAA | 29-Apr-10 | Prog for Human Srvs | 1-Apr-10 |
| CAC of Victoria | 5-Mar-10 | Rolling Plains | 15-Apr-10 |
| [redacted] | 11-Jun-10 | Sheltering Arms, Inc | 18-Mar-10 |
| CAP Taylor | 5-Mar-10 | South Plains CAA | 8-Apr-10 |
| CC of Reeves | 20-May-10 | South Texas Devel Council | 20-May-10 |
| CSA of South Texas | 4-Mar-10 | Texoma COG | 20-May-10 |
| CSI | 14-May-10 | Travis County HSD | 11-Mar-10 |
| Dallas County H+S | 5-Mar-10 | Tri-County CA, Inc | 29-Apr-10 |
| EOAC of Hall Fed, XI | 11-Jun-10 | Webb County CAA | 26-Feb-10 |
| El Paso CAP | 1-Apr-10 | West Texas Oppt, Inc | 4-Jun-10 |
| Fort Worth, City of | 11-Jun-10 | | |

**Table 2. TDHCA Inspections of Weatherized Units by Subgrantee**

| Sub # | Subrecipient | Units Complete Grand Total | Units Inspected | % Inspected | PYTD Units Completed as May 31, 2010* |
|---|---|---|---|---|---|
| 1 | Alamo Area CAA | 727 | 0 | 0.0% | 727 |
| 2 | Bee CAA | 17 | 5 | 29.4% | 19 |
| 3 | Big Bend CAA | 71 | 9 | 12.7% | 56 |
| 4 | Brazos Valley CAA | 120 | 26 | 21.7% | 137 |
| 5 | Cameron-Willacy Comm Proj | 120 | 5 | 4.2% | 121 |
| 6 | Central Texas CAA | 64 | 0 | 0.0% | 64 |
| 7 | Combined Comm Action Inc | 168 | 23 | 13.7% | 168 |
| 8 | CA Corp of Victoria | 207 | 10 | 15.0% | 207 |
| 9 | CA Corp of South Texas | 301 | 22 | 7.3% | 298 |
| 10 | Comm Council - Reeves Cty | 25 | 4 | 16.0% | 17 |
| 11 | Comm Svcs Ag Services Inc | 48 | 0**** | 0.0% | 37 |
| 12 | CSI Inc | 168 | 9 | 5.4% | 199 |
| 13 | Concho Valley CAA | 32 | 7 | 21.9% | 99 |
| 14 | Dallas City HHS | 425 | 15 | 3.5% | 425 |
| 15 | Econ Opport Advan Corp | 163 | 28 | 17.2% | 199 |
| 16 | El Paso CA - Project Bravo | 87 | 6 | 6.9% | 90 |
| 17 | Forth Worth | 27 | 23 | 85.2% | 83 |
| 18 | Greater East Texas CAP | 32 | 4 | 12.5% | 103 |
| 19 | Hill Country CAA | 69 | 10 | 16.9% | 53 |
| 20 | Institute for Rural Dev | 15 | 4 | 26.7% | 15 |
| 21 | Lubbock | 77 | 2 | 2.6% | 77 |
| 22 | Nueces County CAA | 142 | 10 | 7.0% | 142 |
| 23 | Panhandle Community Svcs | 45 | 5 | 11.1% | 59 |
| 24 | Program for Human Svcs | 177 | 9 | 5.1% | 177 |
| 25 | Rolling Plains Mgmt | 131 | 20 | 15.3% | 182 |
| 26 | San Antonio | 1833 | 0 | 0.0% | 1833 |
| 27 | South Plains CAA | 36 | 0**** | 0.0% | 71 |
| 28 | So Texas Dev Council | 20 | 8 | 40.0% | 16 |
| 29 | Texoma CoG | 220 | 23 | 10.5% | 210 |
| 30 | Travis Cty HHS | 3 | 0 | 0.0% | 10 |
| 31 | Tri-County | 17 | 3 | 17.6% | 9 |
| 32 | Webb County CAA | 21 | 3 | 14.3% | 32 |
| 33 | West TexasOpportunities | 201 | 14 | 7.0% | 264 |
| 34 | Arlington | 48 | 10 | 20.8% | 60 |
| 35 | Austin | 0 | 5** | 100.0% | 10 |
| 36 | Beaumont | 17 | 4 | 23.5% | 17 |
| 37 | Brownsville | 53 | 10 | 18.9% | 34 |
| 38 | Corpus Christi | 4 | 0 | 0.0% | 5 |
| 39 | Dallas | 60 | 11 | 18.3% | 91 |
| 40 | El Paso | 39 | 12 | 30.8% | 29 |
| 41 | Houston | 365 | 0 | 0.0% | 365 |
| 42 | Laredo | 14 | 0 | 0.0% | 14 |
| 43 | Odessa | 58 | 10 | 17.2% | 80 |
| 44 | San Antonio | 212 | 6 | 2.8% | 212 |
| Grand Total | | 5955 | 509 | 8.6% | 6986 |

*Sheltering Arms Sr Svcs will have T&TA visits June 8-10, 2010 and June 29-July 1, 2010.
** City of Austin 0 units reported however they completed 5 units since report was submitted and P.O. inspected 5 units the week of May 17-21, 2010.

**** No ARRA units reported at time of monitoring.

Subrecipients highlighted in orange will be monitored in the month of July.
Subrecipients highlighted in orange will be monitored in the month of June.

## 2.6 *Training and Technical Assistance (T&TA)*

A list of training was provided by TDHCA spanning back to November of 2009. Table 3 lists the Type of Training, Date, Date training occurred, duration, location, # of subgrantee agencies attending, total number of participants and the training organization when applicable.

### 2.6.1 Technical Training

TDHCA has provided technical training in the form of basic weatherization, advanced weatherization, lead safe renovator, and energy audit training (NEAT/MHEA). Other technical training is provided through the use of regional and state-wide meetings and conference calls, as well as one-on-one assistance through telephone calls, e-mails, and on-site visits. It appears that TDHCA needs to improve in their provision of training to assure that all training needs are identified and met and that the training which has been received by their sub-grantee network effectively leads to positive behavioral changes for the weatherization program in the State of Texas.

### 2.6.2 Program Management Training

Program Management Training is completed through the use of regional and state-wide meetings and conference calls, as well as one-on-one assistance through telephone calls, e-mails, and on-site visits.

### 2.6.3 Procurement Training

Procurement training is provided on the job and as ARRA Q/ Reporting.

### 2.6.4 Sub-Contracting Training

Sub-contracting training is provided by the State on an as-needed basis.

### 2.6.5 Inventory Control Training

Inventory is entered and tracked via spreadsheet as per DOE guidelines.

### 2.6.6 Health and Safety Training

Health and Safety training is conducted through DETR as per the State Health & Safety Plan and in accordance with DOE guidelines.

### 2.6.7 Davis Bacon Compliance Training

Davis-Bacon training is completed through the use of contracted training sites, regional and state-wide meetings and conference calls, as well as certified training, one-on-one assistance through telephone calls, e-mails, and on-site visits.

**Table 3. TDHCA Training**

| Date of Training | Name of Training | Location | Trainer | Number of Agencies | Number of Attendees | Duration |
|---|---|---|---|---|---|---|
| 8/31/2009 | NEAT | Austin | Oakridge | 33 | 50 | 3 days |
| 9/8/2009 | NEAT | Austin | Oakridge | 15 | 30 | 3 days |
| 9/15/2009 | NEAT | Austin | Oakridge | 15 | 30 | 3days |
| 9/23/2010 | WAP 101 | Austin | | 42 | na | 2 days |
| 10/22/2009 | HUB | Houston | | 19 | 28 | 1 day |
| 11/3/2009 | Davis-Bacon ACT | El Paso | | 10 | 20 | 1 day |
| 11/5/2009 | Davis-Bacon ACT | Dallas | | 14 | 91 | 1 day |
| 11/10/2009 | Davis-Bacon ACT | Houston | | 10 | 68 | 1 day |
| 11/12/2009 | Davis-Bacon ACT | San Antonio | | 24 | 102 | 1 day |
| 11/16/2009 | 5 Day Basic WX | Austin | | 8 | 17 | 5 days |
| 11/16/2009 | 5 Day Basic WX | Houston | | 5 | 27 | 5 days |
| 11/16/2009 | 5 Day Basic WX | Dallas | | 5 | 14 | 5 days |
| 11/16/2009 | 5 Day Basic WX | Laredo | | 4 | 17 | 5 days |
| 11/16/2009 | 5 Day Basic WX | Lubbock | | 4 | 11 | 5 days |
| 11/30/2009 | 5 Day Basic WX | El Paso | | 7 | 17 | 5 days |
| 11/30/2009 | 5 Day Basic WX | Brownsville | | 4 | 12 | 5 days |
| 11/30/2009 | 5 Day Basic WX | San Antonio | | 7 | 12 | 5 days |
| 11/30/2009 | 5 Day Basic WX | Corpus Christi | | 3 | 23 | 5 days |
| 11/30/2009 | 5 Day Basic WX | Houston | | 3 | 16 | 5 days |
| 11/30/2009 | 5 Day Basic WX | Abilene | | 2 | 14 | 5 days |
| 11/23/2009 | NEAT | Austin | | 1 | 3 | 3 days |
| 12/14/2009 | Mangement | Austin | | 5 | 16 | 3 days |
| 12/14/2009 | Mangement | Brownsville | | 4 | 19 | 3 days |
| 12/14/2009 | Mangement | San Antonio | | 7 | 27 | 3 days |
| 12/14/2009 | Mangement | Dallas | | 7 | 14 | 3 days |
| 12/14/2009 | Mangement | El Paso | | 2 | 5 | 3 days |
| 12/14/2009 | Mangement | Houston | | 4 | 22 | 3 days |
| 12/1/2010 | WAP NEAT | Laredo | | 4 | 11 | 3 days |
| 12/14/2009 | WAP NEAT | Austin | | 1 | 4 | 3 days |
| 12/22/2009 | ARRA Intake | Austin | | 1 | 3 | 1 day |
| 1/4/2010 | ARRA Q/Reporting | Webinar | | na | na | 1 day |
| 1/11/2010 | NEAT | Austin | | 2 | 20 | 3 day |
| 1/25/2010 | Advance WX | Austin | | 6 | 12 | 5 days |
| 1/25/2010 | Advance WX | Brownsville | | 8 | 17 | 5 days |
| 1/25/2010 | Advance WX | Houston | | 7 | 20 | 5 days |
| 1/25/2010 | Advance WX | El Paso | | 7 | 9 | 5 days |
| 1/25/2010 | NEAT | Austin | | 2 | 12 | 3 day |
| 1//11/10 | WAP NEAT | Alice | | 2 | 16 | 3 days |
| 1//26/10 | WAP NEAT | Las Cruces NM | | 4 | 4 | 3 days |
| 2/1/2010 | 5 Day Basic WX | Austin | | 1 | 18 | 5 days |
| 2/1/2010 | 5 Day Basic WX | Houston | | 1 | 18 | 5 days |
| 2/5/2010 | Davis Bacon | Conference Call | | 5 | 14 | 1 day |
| 2/8/2010 | NEAT | Austin | | 5 | 22 | 3 day |
| 2/10/2010 | Davis Bacon | Conference Call | | na | na | 1 day |
| 2/19/2010 | Davis Bacon | Webinar | | na | na | 1 day |
| 2/16/2010 | NEAT | Austin | | 21 | 52 | 3 day |
| 2/82010 | NEAT | Austin | | 5 | 22 | 3 days |

| Date of Training | Name of Training | Location | Trainer | Number of Agencies | Number of Attendees | Duration |
|---|---|---|---|---|---|---|
| 2/16/2010 | WAP On Site | Center | | 1 | 7 | 3 days |
| 3/3/2010 | Mangement | Austin | | 5 | 18 | 3 days |
| 3/3/2010 | Mangement | San Antonio | | 7 | 12 | 3 days |
| 3/3/2010 | Mangement | Dallas | | 7 | 14 | 3 days |
| 3/3/2010 | Mangement | Houston | | 4 | 12 | 3 days |
| 3/16/2010 | NEAT | Austin | | 13 | 58 | 3 day |
| 3/9/2010 | Lead Safe Rennovator | San Antonio | | 5 | 18 | 1 days |
| 3/11/2010 | Lead Safe Rennovator | Austin | | 7 | 12 | 1 days |
| 3/17/2010 | Lead Safe Rennovator | Brownsville | | 7 | 14 | 1 days |
| 3/24/2010 | Lead Safe Rennovator | Dallas | | | | 1 days |
| 3/25/2010 | Lead Safe Rennovator | Houston | | | | 1 days |
| 3/30/2010 | Lead Safe Rennovator | Houston | | 4 | 12 | 1 days |
| 3/22/2010 | NEAT | Austin | | 5 | 19 | 3 days |
| 3/292010 | CEAP | Austin | | 1 | 4 | 1 |
| 4/12/2010 | 5 Day Basic WX | Austin | | 1 | 15 | 5 days |
| 4/26/2010 | 5 day Basic | Austin | | 1 | 15 | 5 days |
| 4/30/2010 | Lead Safe Rennovator | Brownsville | | 6 | 19 | 1 days |
| 4/7/2010 | WAP On Site NEAT | Houston | | 1 | 7 | 1 days |
| 5/3/2010 | 5 Day Basic WX | Dallas | | 5 | 18 | 5 days |
| 5/3/2010 | 5 Day Basic WX | El Paso | | 2 | 17 | 5 days |
| 5/6/2010 | Lead Safe Rennovator | Austin | | 1 | 22 | 1 days |
| 5/10/2010 | WAP mangement | Dallas | | 3 | 13 | 5 days |
| 5/10/2010 | WAP mangement | Austin | | 1 | 10 | 3 days |
| 5/18/2010 | Lead Rennovator | Dallas | | 5 | 15 | 1 day |
| 5/24/2010 | 5 day basic | Brownsvile | | 1 | 15 | 5 day |
| 5/24/2010 | WAP Mangement | Laredo | | 2 | 10 | 3 day |
| 5/11/2010 | NEAT T and TA | Austin | Oakridge | TDHCA | 7 | 3 days |
| 5/17/2010 | Multi Family Webinare | Austin | DNR | All ARRA Subs | na | 1 day |
| 5/20/2010 | Multifamily | Austin | DNR | All ARRA Subs | 22 | 1 day |
| 5/21/2010 | Lead Rennovator | Austin | ACS | TDHCA | 8 | 1day |
| 5/27/2010 | NEAT T and TA | Austin | | 1 | 3 | 1 days |
| 6/3/2010 | Lead Safe Rennovator | Dallas | | 4 | 18 | 1 days |
| 6/7/2010 | Basic Weatherization | Austin | | 4 | 18 | 5 days |
| 6/7/2010 | Basic Weatherization | Houston | | 4 | 18 | 5 days |
| 6/14/2010 | WAP Mangement | Austin | | 3 | 15 | 5 days |
| 6/21/2010 | Basic | San Antonio | | 5 | 19 | 5 days |
| 6/22/2010 | NEAT | Dallas | | 1 | 22 | 3 days |
| 7/122010 | Basic WAP | Dallas | | 1 | 18 | 5 days |
| 7/122010 | Multifamily | Houston | | 4 | 26 | 2 days |
| 7/122010 | NEAT | Austin | | 5 | 12 | 3 days |
| 7/19/2010 | Basic WAP | Houston | | 3 | 10 | 5 days |
| 7/19/2010 | Lead Safe Worker | San Antonio | | 4 | 13 | 1 days |
| 7/19/2010 | NEAT | Dallas | | 3 | 4 | 3 days |
| 7/4/2010 | NEAT | Laredo | | 1 | 7 | 3 days |
| 7/12/2010 | NEAT | Austin | | 1 | 3 | 3 days |

## 2.7 Local Agency Visit and Observations

Two subgrantees were visited on this trip: 1. Sheltering Arms in Houston and, 2. the City of Houston. The Project Officers visited each of subgrantee between June 23rd and June 24th, 2010. The Project Officer met with the representative of each subgrantee.

**Table 3: Subgrantee Information**

| Subgrantee | Address | Telephone |
|---|---|---|
| Sheltering Arms | 8888 Aberdeen Way, Houston, TX 77025-2416 | (713) 685-6577 |
| City of Houston | 901 Bagby St., Houston, TX 77002 | (713) 837-0311 |

This Project Officer toured Sheltering Arms and observed the following:

1. A general site tour of offices displaying record locations, inventory, supplies on-hand and securitization of equipment and supplies.
2. A walk-through of how potential applicants enter the system, assessment of qualifications, assignment of job number, scheduling of work, scheduling of inspection, any potential re-work, and then final inspection.
3. A description of how cost associated labor and supplies are accounted within the subgrantee's cost control system, how they are accrued periodically and then coded against ARRA funds.
4. A description of how funds are requisitioned from TDHCA and then dispersed to contractors. The timeliness of the disbursements was also noted.

The same was not performed for the City of Houston because time constraints required DOE personnel to monitor completed weatherized units.

In meeting with representatives from Sheltering Arms, this Project Officer noted that the subgrantee was under the impression from TDHCA that there was a $6,500 spending limit per unit. TDHCA needs to communicate with their subgrantees that $6,500 is only an average number over the total amount of weatherized homes. As a measure of effectiveness and expenditures all measures with a SIR >1 should be installed in a unit, because as production increases the average SIR per unit will decrease. This will result in TDHCA having to either produce more homes to consume their total grant or refund the federal government the balance at the end of the grant period. And since maximizing the average expenditure per unit to $6,500 is the DOE's target goal, this also produces profit motive for contractors to install more measures since increased labor should result in increased wages.

Simonson Management Systems (SMS) was performing quality assurance visits along with the DOE as an outside contractor to increase the statistical significance of the quality assurance numbers derived from a sampling of the total number of weatherized units for the State of Texas. SMS visited 100 completed weatherized units. SMS found a number of actions that would have improved the efficacy of weatherization that were either skipped or unknown by the agency inspector.

The overall production quality observed by the project officer indicated that while most measures were being addressed, some were being overlooked. DOE Project officers observed most frequently in homes that attic insulation, while installed to the prescribed R-value over the majority of the attic, was sloped to the entrance of the attic instead of damming the opening and insulating all the way up to the opening. If the attic space is not being used for storage, then damming the opening should be performed. I also

noticed that in one particular home, the front door was in clear need of replacement. The DOE understands that there is an institutionalized view to migrate from a "Doors & Windows" program to a more whole-house type approach, but for a contractor or a subgrantee to miss the need to install a new door suggests that information may have been communicated that substantially adverts contractors from installing necessary doors or windows. This problem is propagated through the agency inspector that allowed the house to be completed.

**Table 4: Properties Visited During DOE On-Site Monitoring**

| Job Number | Agency | Address | Weatherization Status |
|---|---|---|---|
| 10709-10 | City of Houston | 5407 Weaver Rd, Houston, TX | Completed |
| 10087-09 | City of Houston | 7721 Langley Rd., Houston, TX | Completed |
| 10272-09 | City of Houston | 4922 Malmedy Rd, Houston TX | Completed |
| 10173-09 | City of Houston | 5131 Willow Glen, Houston, TX | Completed |
| 11172-10 | City of Houston | 5918 Southlark Rd., Houston TX | Completed |
| 10709-10 | City of Houston | 5407 Weaver Rd., Houston TX | Completed |
| 10125-09 | City of Houston | 8615 Bertwood Rd., Houston TX | Completed |
| 11172-10 | City of Houston | 5918 South Lark, Houston TX | Completed |
| 10-ARRA-WAP6609 | Sheltering Arms | 6609 Burkett St., Houston TX | Completed |
| 10-ARRA-WAP7322 | Sheltering Arms | 7322 England St., Houston TX | Completed |
| 09-ARRA-WAP6835 | Sheltering Arms | 6835 England St., Houston TX | Completed |

### 2.7.1 DOE Job File Review of Subgrantee

DOE Concern #9:

The files that were reviewed by this Project Officer found deficiencies in some of the completed file folders. This fact was furthered by the results of the SMS file reviewers. It is important that TDHCA produce a checklist for subgrantee inspectors so that each weatherization file is complete before it is filed as complete. TDHCA is welcome to use the DOE QA checklist as a final file measure.

**DOE Recommendation #9: TDHCA Must Insure All Documentation in Job Files is Complete**

DOE encourages Texas Housing Division to use a checklist to ensure job files have all of the necessary documentation as a finalized weatherized unit.

### 2.7.2 Reported Findings for Subgrantee

An A-133 Single Audit finding was reported on the Caprock Community Action Agency in Crosbyton, TX. An ongoing concern was noted with a significant deficiency disclosed about the financial statements along with a material noncompliance. The auditor placed this CAA as a high risk for federal programs. Noted deficiencies exist in allowable costs, equipment and property management and reporting. This deficiency will be reported to the contract specialist for this grant at the National Energy Technology Laboratory, Kellen Cassell. TDHCA should expect contact from Mr. Cassell regarding this situation.

# 3 Financial and Administrative Management

## 3.1 Financial Management and Administration

The state policies and procedures for accounting, reporting, payroll and personnel, procurement, and record retention are adequate to provide sufficient checks and balances to detect any potential financial problems and to ensure lack of abuse or fraud. A review of previous A-133 audits revealed no Grantee deficiencies. The last audit was performed for the fiscal year ending August 31st, 2009. Independent audits are performed by KPMG, LLC.

A conference call was conducted with Ms. Georganne St. Clair from NETL who performs the financial desk monitoring of all WAP/ARRA Grantees. No further information regarding this conference call has been provided as of July 29th, 2010. For additional follow-up on NETL's review, please contact Ms. Georganne St. Clair or Kellyn Cassell at NETL directly. Ms. St. Clair can be reached at (304) 285-4311 and Mr. Cassell at (304) 285-4554.

## 3.2 Accounting Management Systems

TDHCA uses PeopleSoft accounting software. This is a State-wide system implemented from the State Comptroller. This system seems to perform well for Texas and provides sufficient transparency.

## 3.3 Payroll and Personnel

### 3.3.1 Subgrantee

The State of Texas has a well documented payroll system with a complete system of checks and balances to assure that Davis-Bacon regulations are applied to all labor costs. The key requirements include: 1. All prime contractors are required to submit a weekly certified payroll or non-performance certification. Sub-contractors are required to submit a weekly certified payroll only for each week they are contracted to work. 2. All original certified payrolls must be submitted to the subgrantee no later than one week from the payroll end date listed on the certified payroll. 3. It is the subgrantee's responsibility to review each certified payroll for error or omission prior to submitting them to TDHCA for final review. 4. It is the subgrantee's responsibility to scan a copy of each payroll to TDHCA no later than 1 week from payroll end date listed on the certified payroll. 5. All original certified payrolls are required to be sent to TDHCA on a monthly basis.

All Grantee personnel report on a weekly basis through an electronic time reporting system and ARRA and non-ARRA time is tracked separately. All costs incurred by TDHCA staff are reviewed for allowance and compliance by the accounting staff.

## 3.4 Equipment

Texas Housing Division has a master inventory list of all vehicles and equipment and procedures covering the inventory, maintenance, and disposition of the vehicles and equipment. The equipment is in working order. The list was reviewed on the previous monitoring visit in March 2010.

## 3.5 Supplies and Materials

Grantee collects and maintains documentation of all ARRA payments detailing products and/or services received by said vendor. The vendor's identity is reported via a name and address and/or a DUNS/EIN number.

## 3.6 Procurement

All new Subgrantee contracts are reviewed for proper procurement processes, documentation, and award and are audited during procedural/fiscal monitoring. Full and open competitive bidding, fairness in bidding and contracting procedures with small businesses, women's' business enterprises, and minority-owned businesses are also reviewed.

## 3.7 Record Retention

Pursuant to 10 CFR 440.24, 440.25 and 10 CFR 600.242, Texas Department of Housing and Community Affairs and each WAP Subgrantee receiving federal financial assistance has been keeping proper records and issue reports to account for said funds. Procedures are in place to retain ARRA records for a period of at least three years after the close-out of the ARRA grant and the proper disposal of the records after the retention period ends. The physical location of these records were observed in the grantee and subgrantee offices.

# 4 Conclusion

*The purpose of our monitoring visit was to review and evaluate the condition of the program as well as provide technical assistance whenever time allowed. In addition to the comments in this report, several minor suggestions and recommendations were made that are not mentioned in this report. All comments are intended to assist the Weatherization staff in the continual improvement of the quality of work performed by the Texas Housing Division's Weatherization Program.*

This Project Officers need to stress that production volume without quality is not serving the public or this program. If production needs to be scaled back to improve quality, then TDHCA needs to scale-back production with a comprehensive plan to increase quality. The staff and subgrantees showed immense cooperation when asked to provide supporting documentation for monitoring purposes and made themselves available as necessary to answer questions.

DOE strongly suggests that TDHCA develops a comprehensive plan to address all of the DOE recommendations established in this report.

There were no major DOE findings resulting from this monitoring visit, therefore there is no specific response to findings required. However, DOE is requesting responses from TDHCA that indicates how TDHCA will address the concerns expressed in this report and any procedures that will be put in place to monitor them in order to prevent them from reoccurring.

DOE would like to thank TDHCA for their cooperation and hospitality during the visit.

**Report Prepared by:**

Jason Masters
Project Officer
Weatherization Assistance Program - U.S. Department of Energy
Golden Field Office, 1617 Cole Boulevard, Golden, CO 80401

8/24/2010
Date

**Report Prepared by:**

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

8/24/2010
**Date**

**Report Reviewed by:**

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

8/24/10
Date

**Internal Audit Division**

**BOARD ACTION REQUEST**

**November 9, 2010**

## Action Items

Presentation and discussion of the status of prior audit issues.

## Required Action

None, information item only.

## Background

Of the 64 current prior audit issues:

- 15 prior audit issues previously reported as "implemented" were verified and closed by internal audit.
  - Bond Finance: Issue # 81
  - Financial Administration: Issue # 112, 117, 118, 119, 124
  - Financial Administration – Loan Servicing: Issue # 62, 63
  - Multifamily – 9% Housing Tax Credit Program: Issue # 11, 13, 15, 32, 33
  - Human Resources: Issue # 148, 149
- 33 issues were previously reported as "implemented" but have not yet been verified by internal audit.
- 4 issues have recently been reported by management as "implemented". We will verify and close these issues as time allows.
  - Community Affairs – Energy Assistance: Issue # 144
  - Financial Administration – Accounting Operations: Issue # 150, 151
  - Disaster Recovery – Issue # 153
- 12 issues were reported as "pending" or "action delayed". We will verify and close these issues when they are reported as "implemented."
  - Multifamily – 9% Housing Tax Credit Program: Issue # 31
  - Community Affairs – Energy Assistance: Issue # 69, 139, 142, 143, 145
  - Community Affairs – Community Services: Issue # 46, 114
  - Asset Management – Compliance: Issue # 116
  - Disaster Recovery: Issue # 152, 154, 155
- 0 issues were reported as "not implemented."

## Recommendation

None, information item only.

# Texas Department of Housing and Community Affairs - Detailed Audit Findings

| Issue # | Report Date / Auditors | Report Name / Audit Scope |
|---|---|---|
| 10 | 1/7/2002<br>Internal Audit | Controls Over Single Family Loans; Report No.1.05<br>Review of controls over single family loans serviced by the Department. |

| Status | Target Date |
|---|---|
| Px 01/07/02 | |
| Px 04/22/02 | 7/1/2002 |
| Px 07/22/02 | 11/1/2002 |
| Px 11/05/02 | 2/1/2003 |
| Px 01/28/03 | 6/1/2003 |
| Px 03/28/03 | 6/1/2003 |
| Px 05/06/03 | 6/1/2003 |
| Px 09/22/03 | 10/3/2003 |
| Ix 11/21/03 | |
| Ix 02/17/04 | |
| Px 12/19/08 | |
| Ix 06/12/09 | |

***Division:*** HOME

***Section:*** Not Selected

***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.

| | |
|---|---|
| 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. |

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 27 | 12/19/2007<br>Deloitte and Tou | Report to Management- year ending August 31, 2007<br>Annual independent audit of the Department's general purpose financial statements | Px<br>Ix<br>Ixx<br>Ix<br>Ix | 12/19/07<br>04/22/08<br>06/26/08<br>09/17/09<br>02/16/10 |

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Status Date | Target Date |
|---|---|---|---|---|---|
| 31 | 12/11/2007<br>Internal Audit | Multifamily 9% Housing Tax Credit Program - Application and Award Processes<br>Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio | Px | 12/11/07 | 2/29/2008 |
| | | | Nr | 06/12/09 | |
| | | | Px | 02/23/10 | 12/1/2010 |
| | | | Px | 07/16/10 | |
| | | | Px | 09/28/10 | |

***Division:*** Multifamily

***Section:*** 9% Housing Tax Credit Program

***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:***

09/28/10 - This will be cleared with the certification in the application for 2011 that will be published this Fall.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 35 | 12/11/2007<br>Internal Audit | Multifamily 9% Housing Tax Credit Program - Application and Award Processes<br>Consideration of the 9% Housing Tax Credit Program for the 2007 tax credit cycle applicatio | Px 12/11/07<br>Nr 06/12/09<br>Ix 02/23/10 | 7/31/2008 |

***Division:*** Multifamily

***Section:*** 9% Housing Tax Credit Program

***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.

**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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 39 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09 | 10/1/2008<br>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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 40 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09 | 10/31/2008<br>2/20/2009 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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\200 \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.

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

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 42 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09<br>Px 06/17/09<br>Nr 03/01/10<br>Ix 07/13/10 | 1/1/2009<br>3/31/2009<br><br>7/30/2009<br><br> |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

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

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 -

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 (fMC) 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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 43 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Nr 06/12/09<br>Px 06/17/09<br>Px 09/29/09<br>Nr 03/01/10<br>Ix 07/13/10 | 11/1/2008<br>1/31/2008<br><br>7/30/2009<br>12/1/2009<br><br> |

***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 Ciose 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.

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

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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.

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

***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.

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| 06/11/08 - | 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.<br>Management will update the contracts and monitoring instruments to include references to UGMS and the OMB Circulars.<br><br>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.)<br><br>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.<br>A standard form, or similar effective tool, will be developed to document the results of the expenditure review. |

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 46 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Dx 06/15/09<br>Dx 09/21/09<br>Nr 03/01/10<br>Px 07/13/10<br>Px 10/28/10 | 10/31/2008<br>5/31/2009<br><br><br><br>12/31/2010<br>12/31/2010 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

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

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

In comparing the information contained in the monitoring tracking system to the information gathered from manually reviewing monitoring reports and responses, of the 65 on-site monitoring visits performed over the past two years:
- The information contained in the system matches the information in monitoring reports and responses for 16 visits (24.6%),
- The information contained in the system is incomplete when compared to the monitoring reports and responses for 34 visits (52.3%)and inaccurate for one visit, and
- There is no record of 14 monitoring visits (21.5%) in the monitoring tracking system.

Of the 453 questions answered in the 2006 risk assessment, 83 questions (19.6%) were answered incorrectly or not at all. In addition, the possible answers to the risk assessment questions do not provide an accurate assessment of which subrecipients pose the highest risk. For example:
- A subrecipient with one previous monitoring finding currently receives the same ranking as a subrecipient with multiple findings on a previous monitoring report.
- A subrecipient that has never been monitored is currently ranked higher for the question 'time since last on-site visit', but is rewarded by receiving no points for the questions 'results of last on-site visit' and 'status of most recent monitoring report.
- A subrecipient can be delinquent in providing their audited annual financial report to the Department for multiple months, but if they are in compliance on the day the risk assessment is completed, they are ranked the same as an entity who was in full compliance with the audit requirement throughout the year.

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

**Status:**

10/28/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessmenet will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department.
Community Services will modify a tracking system developed by CAD/Energy Assistance Section. Once it is modified to meet CS needs, the data related to the monitoring of CS contracts will be entered. The system is an Access based database. This database should be modified to meet CS needs by 12/31/2010 and thereafter monitoring data will begin to be entered into the system.

07/13/10 - The Information Systems Division has determined that the Monitoring Tracking System will not be able to be used as intended. The Risk Assessment will not be able to pull data electronically from the Monitoring Tracking System as intended. The IS Division has been and is currently working on ARRA projects which are assessed as a higher priority to the Department. IS staff has also recommended not modifying what had been developed. Community Affairs Community Services will work with IS on this project once other pressing IS/CACS projects are finalized and IS has time available to determine what system can be developed to assist with the Risk Assessment. Community Services is considering developing either an Access or Excel database to manage data for the Risk Assessment and not relying on the IS database.

CS is in the process of entering monitoring data related to monitoring reviews and anticipates completing this by 12/31/2010. CSBG Program Officers have also had additional work related to the CSBG ARRA program. CSBG ARRA contracts will end 9/30/2010.

03/01/10 -

09/21/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed, The IS Division is currently working on projects assessed as higher priority to the Department.

06/15/09 - Information Systems has made modifications to the monitoring tracking system but additional modifications are needed. The IS division is currently working on projects assessed as higher priority to the Department. The IS division has set the incorporation of the American Recovery and Reinvestment Act contracts and reporting mechanism into the current Community Affairs contract system as a high priority.

12/01/08 - The Information Systems Division has made modifications to the Monitoring Tracking System but additional modifications are needed and will be completed by 5/31/09.

06/11/08 - The CA Division in conjunction with the IS Division will revisit and update the monitoring tracking system that tracks monitoring findings. A CS staff member, who is not required to travel, will be designated to maintain the monitoring tracking system. The existing monitoring tracking system tracks data used in the Department's Risk Assessment Module. Management will ensure that data is entered in a timely manner.

Prior to the 2008 Risk Assessment, questions and weights were revised to reflect a more accurate risk ranking of the subrecipients. The Risk Assessment will continue to be evaluated and improved.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 47 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09 | 10/1/2008<br>3/31/2009 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 50 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Ix 12/01/08 | 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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 51 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Ix 12/01/08 | 9/1/2008 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

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

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

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

***Status:***

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

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

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

***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.

**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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 53 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09<br>Px 06/19/09<br>Nr 03/01/10<br>Ix 07/13/10 | 9/1/2008<br>2/28/2009 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***Issue:*** Chapter 6-B
Community Services Should Ensure That Subrecipients Comply with Federal Salary Requirements

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 55 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Nr 06/12/09<br>Ix 06/17/09<br>Px 03/22/10<br>Ix 07/13/10 | 9/1/2008<br>2/28/2009 |

***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

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 65 | 5/6/2009<br>Internal Audit | Internal Audit Report on Loan Servicing and Recycling of Program Income in the HOME Divi<br>The scope of this audit included the loan document processing and loan servicing functions | Px 05/06/09<br>Ix 06/11/09 | 7/31/2009 |

***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)

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 69 | 12/20/2006<br>Internal Audit | Energy Assistance Weatherization Assistance Program Subrecipient Monitoring<br>Consideration of EA Weatherization Assistance program's subrecipient monitoring functions | Px 12/20/06<br>Px 03/02/07<br>Px 04/23/07<br>Px 06/26/07<br>Dx 08/02/07<br>Dx 04/22/08<br>Dx 12/01/08<br>Dx 06/12/09<br>Dx 02/12/10<br>Dx 07/14/10<br>Px 10/27/10 | 5/30/2007<br>5/30/2007<br>5/30/2007<br>7/30/2007<br>11/1/2007<br><br><br><br><br><br>11/30/2010 |

***Division:*** Community Affairs

***Section:*** Energy Assistance

***Issue:*** Section 6
Assess and Satisfy Information Needs

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:**

10/27/10 - ARRA WAP Unit Inspections & Monitoring Visits Summary - The primary purpose of this Excel database is to track the number of monitoring visits that have been planned and completed and the percentage of units inspected to ensure that the EA team meets ARRA, DOE, and TDHCA requirements. The database is also used to calculate the minimum number of units that must be inspected in upcoming visits and to assist in monitoring document inventories. Reports from this database are generated weekly; the first report was distributed in July 2010 and continues to evolve as management's information needs evolve.
Much of the data in the database is also used to populate fileds in a newly developed "ARRA WAP Monitoring Visit Risk Assessment" report. This report is used to prioritize monitoring visits based on specified risk factors and weights. This report has been generated weekly since the end of September 2010.

Monitoring Results Database - the primary purpose of this Access database is to track the occurrence of ARRA WAP monitoring visits, the results of these visits (findings, (recommended) corrective actions, recommendations, notes, due dates, responsible parties, responses, and corrective actions taken), the timely distribution of monitoring reports, as well as the timely receipt of report responses from the Subrecipients. This database will also be used to track and report unit inspection characteristics, finding trends, assess the training needs of the EA team and Subrecipients, and plan upcoming monitoring visits. The database is partially complete as of October 27, 2010. It is expected to be fully complete by November 30, 2010. Although the database is not fully complete, the EA team is currently able to generate reports of specific data elements that have been loaded into the database.

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.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 71 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09 | 2/28/2009 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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.

Recommendation
Community Services should:
- 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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 72 | 6/11/2008<br>Internal Audit | Audit of the Community Services Block Grant and Emergency Shelter Block Grants<br>Review of the draw processing and monitoring functions of the Community Affairs Division's | Px 06/11/08<br>Px 12/01/08<br>Ix 06/15/09 | 5/31/2008 |

***Division:*** Community Affairs

***Section:*** Community Services - CSBG

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope |
|---|---|---|

**Status:**

06/15/09 - Safeguards have been implemented through the revision of TAC rules, the development of a monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse.

12/01/08 - Safeguards have been implemented through the revision of the TAC rules. the development of a draft monitoring guide, revisions to the monitoring instruments, and changes to the monitoring processes to ensure the consistency of monitoring and to decrease the potential for collusion, fraud, waste or abuse. The CA Division Director will continue to work with the Executive Team to evaluate the effectiveness of the monitoring function in the Community Affairs Division.

06/11/08 - Management will evaluate the functions and activities of the program officers and other staff of the Community Affairs Division and decide whether to move the monitoring function to another division, or to put into place additional safeguards to ensure the consistency of monitoring and decrease the potential for collusion or other types of fraud, waste and abuse.

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| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 84 | 8/18/2008<br>State Auditor's O | Audit of the Single Family Mortgage Revenue Bond Program at TDHCA<br>Review of the Department's processes of managing Program bond payments, interest rate s | Px 08/18/08<br>Px 11/08/08<br>Ix 01/21/09 | 11/30/2008<br>11/30/2008 |

***Division:*** Information Systems

***Section:*** Not Selected

***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.

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| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 85 | 8/18/2008<br>State Auditor's O | Audit of the Single Family Mortgage Revenue Bond Program at TDHCA<br>Review of the Department's processes of managing Program bond payments, interest rate s | Px 08/18/08<br>Px 11/08/08<br>Ix 01/23/09 | 11/30/2008<br>11/30/2008 |

***Division:*** Information Systems

***Section:*** Not Selected

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 86 | 8/18/2008<br>State Auditor's O | Audit of the Single Family Mortgage Revenue Bond Program at TDHCA<br>Review of the Department's processes of managing Program bond payments, interest rate s | Px 08/18/08<br>Px 11/07/08<br>Px 01/21/09<br>Ix 07/06/10 | 10/31/2008<br>8/31/2009 |

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 111 | 8/18/2008<br>State Auditor's O | Audit of the Single Family Mortgage Revenue Bond Program at TDHCA<br>Review of the Department's processes of managing Program bond payments, interest rate s | Px<br>Ix | 08/18/08<br>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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 113 | 6/23/2009 | Texas Community Services Block Grant Program (CSBG) State Assessment Review | Px 07/27/09 | |
| | Department of H | Review of the fiscal and programmatic procedures of the CSBG State agency | Px 09/29/09 | 4/1/2010 |
| | | | Nr 03/01/10 | |
| | | | Ix 07/13/10 | |

***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

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 114 | 6/23/2009 | Texas Community Services Block Grant Program (CSBG) State Assessment Review | Px 07/27/09 | |
| | Department of H | Review of the fiscal and programmatic procedures of the CSBG State agency | Px 10/02/09 | 12/31/2009 |
| | | | Nr 03/01/10 | |
| | | | Px 07/13/10 | 9/30/2010 |
| | | | Px 10/13/10 | 12/30/2010 |

***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:***

10/13/10 - Community Affairs decided to move TAC Rules revisions to the November 2010 Board meeting. CA intends to present this rule for Board action at that time. The Department does not expect any further response from USHHS from their previous monitoring visit.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 115 | 6/23/2009<br>Department of H | Texas Community Services Block Grant Program (CSBG) State Assessment Review<br>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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 116 | 4/17/2009<br>HUD | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs | Px<br>Tx<br>Px<br>Px | 06/30/09<br>01/25/10<br>06/29/10<br>09/30/10 |

***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:***

09/30/10 - Last quarter 2 more properties came into compliance. The Department is confident that some of the remaining properties will come into compliance through normal monitoring and enforcement procedures. However, the Department acknowledges that some of these properties need special consideration. TDHCA and HUD regional staff have been discussing dates and times to meet and discuss ideas for resolving these property compliance issues.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 120 | 4/17/2009<br>HUD | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs | Px<br>Px<br>Ix | 06/30/09<br>09/17/09<br>09/25/09 |

***Division:*** Program Services

***Section:*** Not Selected

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 122 | 12/18/2008<br>Deloitte and Tou | Report to Management - year ending August 31, 2008<br>Annual independent audit of the Department's general purpose financial statements | Px 09/30/09<br>Px 12/18/09<br>Ix 02/16/10 | 10/31/2009<br>1/31/2009 |

***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 ppropriateness.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 123 | 12/18/2008<br>Deloitte and Tou | Report to Management - year ending August 31, 2008<br>Annual independent audit of the Department's general purpose financial statements | Px 12/18/08<br>Ix 09/30/09 | 12/31/2008 |

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 125 | 3/3/2009<br>State Auditor's O | State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ende<br>Federal Portion Audit of the State's basic financial statements and a review of significant | Px 03/03/09<br>Ix 09/30/09 | 3/31/2009 |

***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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 127 | 8/1/2009<br>State Auditor's O | A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of<br>Following up on prior audit recommendations and covered all matters related to the administr | Px 08/01/09<br>Ix 10/15/09 | 9/1/2009 |

***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

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 128 | 8/1/2009<br>State Auditor's O | A Follow-up Audit Report on Hurricane Recovery Funds Administered by the Department of<br>Following up on prior audit recommendations and covered all matters related to the administr | Px 08/01/09<br>Ix 11/09/09 | 9/1/2009 |

***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

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 139 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Px 07/14/10<br>Px 10/26/10 | 5/1/2010<br>7/29/2010<br>11/10/2010 |

***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:***

10/26/10 - Energy Assistance staff has proposed to revise the TAC rules to reflect the DOE Weatherization Grant Guidance requirement that monitoring reports be issued within 30 days of a review. This rule revision will be ratified by the TDHCA Board on November 10, 2010. To meet the 30-day requirement, Energy Assistance has instituted a requirement that Program Officers must turn in their reports within 14 days of the end of a review; and the Project Manager must review and forward the report to the EA Manager within 21 days of the end of the review.

EA has 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 repsonse is received, and when the report is closed.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 140 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Ix 07/14/10 | 5/1/2010<br>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 31PPPPstPPPP 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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 141 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Ix 07/14/10 | 5/15/2010<br>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 subrecipeint 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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 142 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Px 07/14/10<br>Px 10/26/10 | 5/30/2010<br>8/30/2010<br>11/1/2010 |

***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.

**Status:**

10/26/10 - Energy Assistance currently has 20 Program Officers. We have also increased our training staff to one Project Manager and two Training Officers. Our training staff, working through the Weatherization Training Academy, has ensured that each newly hired Program Officer has attended each training class offered by the Academy. Our training staff has also identified training opportunities outside of the Academy for new and existing Program Officers. As guidance is updated, our training staff will continuously add classes that are consistent with DOE Grant Guidance. Each of these classes will be included in a designated curriculum of classes that Program Officers will be required to attend.

Energy Assistance management has instituted a Program Officer pairing system to ensure that newly hired Program Officers received on-the-job training only from experienced Program Offficers. New Program Officers are assigned to accompany existing Program Officers on monitoring visits to Subrecipients. The new Program Officer learns by assisting the existing Program Officer. Prior to being allowed to review a Subrecipient on their own, new Program Officers will be accompanied on a monitoring visit by a Senior Program Officer or the Prjoect Manager for Monitoring to ensure that they have been proprerly trained.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 143 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Px 07/14/10<br>Px 10/26/10 | 5/15/2010<br>8/31/2010<br>11/1/2010 |

***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:***

10/26/10 - The draft monitoring guide is currently in the review stage. It will be reviewed by the Energy Assistance Section Manager and Director, and by the Deputy Executive Director for Community Based Services.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 144 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Dx 07/14/10<br>Ix 10/15/10 | 5/1/2010 |

***Division:*** Community Affairs

***Section:*** Energy Assistance - WAP

***Issue:*** 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.

***Status:***

10/15/10 - In April 2010, the Program Services group finalized and distributed an SOP that covers Davis-Bacon Act monitoring requirements. This SOP was distributed to and discussed with the Davis-Bacon monitoring staff during a meeting led by Lora Myrick.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 145 | 4/27/2010<br>Internal Audit | An Audit of the Weatherization Assistance Program's Monitoring Process, Report #10-1035<br>WAP monitoring for program years 2007, 2008 and 2009. American Recovery and Reinvest | Px 04/27/10<br>Px 07/14/10<br>Px 10/26/10 | 5/15/2010<br>9/30/2010<br>11/30/2010 |

***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 subrecpient'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:***

10/26/10 - Energy Assistance has developed a database to track monitoring activities. The database tracks findings, recommended corrective actions, deliverables, due dates, responsible parties, actions taken, and final resolutions. A temporary employee is being sought to assist with data entry. Once the data entry is completed, the database will be fully deployed to track all monitoring activities.

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.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 150 | 8/25/2010<br>Internal Audit | An Internal Audit of Accounting Operations<br>Financial transactions processed by accounting operations between September 1, 2007 and | Px 08/25/10<br>Ix 10/22/10 | 9/10/2010 |

***Division:*** Financial Administration

***Section:*** Accounting Operations

***Issue:*** Of the 288 transactions tested, one HOME transaction did not have supporting documentation showing that the appropriate supervisory approval occurred and one HTF transaction did not have supporting documentation identifying the preparer. In addition, we noted that budget and expenditure transfers that affect the divisions did not have any supporting documentation showing the transfer was originally authorized by the division affected by the transfer.

Because Accounting Operations relies on supporting documentation as evidence of the validity of financial transactions, in addition to what is reflected in PeopleSoft, it is important that the supporting documentation include the appropriate authorizations and supervisory approvals. It is also important to maintain all supporting documentation necessary to these transactions. This will ensure that Accounting Operations is conducting transfers in accordance with the directions of division management.

Recommendation:
When Accounting Operations is processing budget and expenditure transfers, they should maintain the authorization from the originating division.

***Status:***

10/22/10 - As of September 10, 2010 the Manager of Accounting Operations has ensured that all supporting documentation is initialed by preparers and approvers. The Manager is also ensuring that all supporting documentation for budget and expenditure transfers are maintained.

08/25/10 - Financial Administration will ensure the authorization from the originating division is maintained when budget or expenditure transfers are processed. We will also ensure all supporting documentation is initialed by preparers and approvers. This process will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 151 | 8/25/2010<br>Internal Audit | An Internal Audit of Accounting Operations<br>Financial transactions processed by accounting operations between September 1, 2007 and | Px 08/25/10<br>Ix 10/22/10 | 9/10/2010 |

***Division:*** Financial Administration

***Section:*** Accounting Operations

***Issue:*** There is no supervisory review of the contract award set-ups in PeopleSoft. Once the contract award has been set-up in PeopleSoft, the grant accountants have the ability to begin entering draw downs against the contract. In addition, of the 90 contract awards tested, 34 (37.8%) had at least one amendment that either increased or decreased the contract award. A supervisor does not review these changes to the award amount. Because there is no supervisory review of the contract award set-ups or of contract award amendments, there is a risk that the grant accountants who process draw downs could believe that there are more or less funds available than there actually are. In addition, the risk increases if the contract award amount is amended.

Recommendation:
Accounting Operations can strengthen their federal draw process by implementing a review step for the contract award set-ups and contract award amendments in PeopleSoft to ensure the contract award amounts are set-up accurately and that contract award amendments are entered correctly.

***Status:***

10/22/10 - As of September 10, 2010 the Manager of Accounting Operations has expanded their contract review process. All subrecipients contracts are reviewed by team leaders or senior accountants to ensure that contract amounts are set-up accurately and that award amendments are entered correctly.

08/25/10 - Accounting Operations will expand our contract review process. All subrecipient contracts will be reviewed by the team leader or senior accountant to ensure accuracy. Supporting documents for contract setup and amendments will be approved and maintained. We will also work with Information Systems to explore automation of this process. This will be implemented by September 10, 2010 and is the responsibility of the Manager of Accounting Operations.

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 152 | 8/31/2010<br>Internal Audit | An Internal Audit of the Construction Quaility in the Disaster Recovery Division<br>CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010. | Px 08/31/10<br>Px 10/25/10 | 9/30/2010 |

***Division:*** Disaster Recovery

***Section:***

***Issue:*** ACS delegated the management of the construction of disaster recovery homes to its subcontractor, Shaw. ACS does not provide sufficient active, ongoing oversight of Shaw's management of the construction process as required by ACS's contract with the Department. The contract between ACS and the Department requires ACS to conduct reviews, perform testing and develop processes to assure quality performance and timeliness of suppliers. In addition, the contract requires ACS to provide written results of its quality assurance processes. We tested a random statistical sample of 100 completed homes and found that eighty-six of 100 (86.0%) completed home files did not contain documentation of a workmanship inspection.

ACS has performed some limited oversight of construction. They hired a third party inspector to conduct workmanship reviews between June 2009 and early February 2010. Ten of the 14 files (71.4%) found to have a workmanship inspection contained a single photograph of the exterior of the home or a photo of an empty lot as evidence of the inspection. Subsequently, ACS hired a construction manager to conduct inspections of the construction sites. The construction manager does not use a checklist nor does he file a report for these site visits. Without documentation of these visits, there is no record to support any assistance or guidance provided to the builders.

The ACS production manager provides some operational oversight of the construction process. The production manager conducts a daily conference call to discuss anticipated application approvals, anticipated and actual closings, anticipated and actual construction starts, inspections and completed homes. The purpose of this daily call is to share data with the Department and with Shaw. However, the data in these reports may not be accurate because some of this data consists of forecasts and estimates. In addition, the data is not aged beyond 30 days, and includes data self-reported by the builders which could be manipulated.

The ACS construction manager and production manager are responsible for overseeing Shaw, as well as the home inspectors and the home builders. However, ACS has not provided specific guidance nor current written procedures to these oversight staff. Without guidance or updated procedures, these staff may not be aware of all of their responsibilities.

Recommendations

- The Department should ensure that ACS provides active and ongoing oversight of the construction management function.
- The results of ACS's oversight should be documented, reviewed and retained by the Department to ensure that it is performed properly.
- ACS should establish a procedure to provide written feedback to Shaw and their building contractors when needed.
- ACS should develop and implement a formal policy and current written procedures for providing oversight of the construction management function.

***Status:***

10/25/10 - Management provided guidance to ACS regarding ongoing oversight of the construction management process. ACS achieves this through multiple status update conferences with Shaw as well as tracking production through the pipeline. The Department enhances ACS' activities by performing onsite construction inspections on a regular basis and will continue this practice through the end of the contract. Due to the fast approaching end of the contract, no further action will be implemented.

08/31/10 - Management acknowledges the need for ongoing oversight of the construction management function and will provide guidance to ACS on ways to enhance their documentation of oversight they are currently conducting as well as feedback provided to Shaw and the building contractors. Management will also include this in the design of programs moving forward to require the inspections in large scale disaster recovery programs, and also require the physical documentation that the work has been done in a timely manner.

Implementation Date: September, 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 153 | 8/31/2010<br>Internal Audit | An Internal Audit of the Construction Quaility in the Disaster Recovery Division<br>CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010. | Px 08/31/10<br>Ix 10/25/10 | 9/30/2010 |

***Division:*** Disaster Recovery

***Section:***

***Issue:*** We tested a random statistical sample of 100 completed home files to determine whether the files contained sufficient documentation to support the inspection and approval processes. We found that nineteen of 100 files (19.0%) did not contain the required inspection documentation. For example:

- One of two (50.0%) of the rehabilitation inspections included in the sample did not contain any documentation of the completed work.
- Four of 26 (15.4%) manufactured home files did not contain the required T-Form, which is an installation inspection application filed with the Department's Manufactured Housing Division to verify that the manufactured home is installed properly.
- Nine of the 100 files (9.0%) with approved final inspections contained notes in the file or on the Housing Quality Survey form that appliances were missing from the home. Six of these were due to theft and in three of these homes the appliances were not delivered before the final inspection.
- One home did not have evidence of working electrical service.
- Five files did not have signed final inspection documents. These documents should be collected by the inspector during the final inspection

Although checklists are used to ensure that all of the required documentation is completed, final inspections are accepted even when the paperwork is not complete. The builder can request the balance of the payment for the home (less a 10% retainage) when the final inspection is accepted. (See Appendix C for more information regarding the inspection process.) If the inspection requirements are not met but the bulk of the funds are paid out, this could put the Department at risk if the home is not satisfactorily completed.

Recommendations

ACS should ensure that:
- all inspection requirements are completed and documented in the file prior to accepting the final inspection, and
- all required documents are present in the file before paying the builders.

***Status:***

10/25/10 - ACS conducts a quality assurance control which includes ensuring that inspection reports are uploaded in the Worltrac system and available prior to paying builders. This concern is further mitigated by the independent random inspections performed by the Department to ensure that homes are complete and compliant to ensure funds are being expended appropriately.

08/31/10 - Management will work with ACS to ensure that all requirements are met and all documentation exists to support a proper final inspection that substantiates completion and payment to the builders.

Implementation Date: September 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 154 | 8/31/2010<br>Internal Audit | An Internal Audit of the Construction Quaility in the Disaster Recovery Division<br>CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010. | Px 08/31/10<br>Px 10/25/10 | 9/30/2010 |

***Division:*** Disaster Recovery

***Section:***

***Issue:*** ACS tracks the number of construction complaints (tasks.) Complaints are aged to determine how long they are outstanding. Currently the complaints are aged in 3 to 15 day increments up to 30 days. All complaints over 30 days are classified as 30+ days which is the highest range for classification. The production report that shows the classification of complaints is referred to as the dashboard report. As of the July 11, 2010 dashboard report, 66.0% of the construction-related complaints were more than 30 days old. This suggests that tasks are not resolved in a timely manner and that management may not be aware of the true age of a complaint once it exceeds 30 days.

Tasks can be marked as completed by the builder even when they are not completely resolved. For example, a builder scheduled the work to complete the task and at that point changed the task status to completed, although the work to satisfy the complaint was not yet accomplished. Because the task status was changed to completed, it appeared that the homeowner's issue was completely resolved, and that the resolution occurred at an earlier point in time.

Recommendations

ACS should:
- ensure customer complaints are resolved in a timely manner,
- monitor the construction-related tasks regularly to ensure that a task is completely resolved before it is marked as complete by the builder,
- consider expanding the range for classifying outstanding construction complaints to include: 31-60 days, 61-90 days, 91-120 days and greater than 120 days,
- consider evaluating customer satisfaction by using telephone calls, letters and surveys to help identify and resolve the causes of homeowner dissatisfaction.

***Status:***

10/25/10 - ACS' call center continues to receive and log applicant complaints into the WorlTrac system. Applicants are also encouraged to contact their builder since the warranty is provided by the builder. ACS is developing a Construction Complaint system to ensure complaints are addressed in a timely manner. The Department will continue to monitor this issue throughout the contract period.

08/31/10 - Management will work with ACS to more closely manage the complaint process. The process for resolving complaints will not end when the contract does as one of the key goals for this program is to create a relationship between the homeowner and the builder so the property homeowners could require in traditional methods warranty work be done. For the duration of this Program, and to provide the most information as the program closes, correction of complaints should be completed immediately. Since the Program will be concluding within the next four months, management will carry forward this process improvement recommendation as a best practice for future disaster recovery programs.

Implementation Date: September 2010 and ongoing

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager

| Issue # | Report Date / Auditors | Report Name / Audit Scope | Status | Target Date |
|---|---|---|---|---|
| 155 | 8/31/2010<br>Internal Audit | An Internal Audit of the Construction Quaility in the Disaster Recovery Division<br>CDBG Disaster Recovery Round Two funds and completed home files as of June 8, 2010. | Px 08/31/10<br>Px 10/25/10 | 9/30/2010 |

***Division:*** Disaster Recovery

***Section:***

***Issue:*** ACS has contractually delegated the responsibility for the repair of existing homes to its subcontractor Shaw. Shaw is currently the general contractor for the rehabilitation portion of the disaster recovery program.

The contract between ACS and Shaw allows Shaw to engage in both contracting and inspection activities. As a result, Shaw is inspecting its own construction work. This lack of segregation of duties increases the possibility of errors and increases the risk that fraud or mismanagement could occur.

The Shaw manager reviews and accepts bids from subcontractors for rehabilitation work. The manager is also responsible for assigning the Shaw inspectors to inspect the rehabilitation work performed by its own subcontractors. In addition, the manager reviews and approves the inspection documents and photos entered into the Worltrac system. When the builder submits a request for payment, the request is approved by the Shaw manager. The purpose of segregating duties is so that the same individual is not in a position to initiate, approve, and review the same activity.

Recommendation

ACS should ensure that Shaw segregates duties among its employees so that the same employee is not assigning contractors and inspectors, reviewing and approving inspection documents and authorizing payments.

***Status:***

10/25/10 - ACS has reviewed this process and determined that there exists adequate separation of duties within Shaw's management team regarding the assignment and review of contractors and inpsections as well as authorization of contractor draws. Also, ACS provides a separate control by their review, final authorization, and payment of these activities.

08/31/10 - While there are very few rehabilitations left to undergo this process, management will work with ACS to determine if any further segregation of duties can be attained and will work to ensure enhanced oversight of this process.

Implementation Date: September 2010

Staff Responsible: Disaster Recovery Director and Grant Compliance Manager