

# **SUPPLEMENTAL**

## **AUDIT MEETING OF MARCH 10, 2010**

**Gloria Ray, Chair**



Tom Gann, Member  
Lowell, Keig, Member

**Internal Audit Division**  
**BOARD ACTION REQUEST**  
**March 10, 2010**

**Action Items**

Presentation and discussion of the status of prior audit issues.

**Required Action**

None, information item only.

**Background**

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

**Of the 108 current prior audit issues:**

- 54 of the 108 current prior audit issues reported as “implemented” were verified and were closed by internal audit.
- 41 issues have recently been reported by management as “implemented” and are reflected on the attached list. We will verify and close these issues as time allows.
- 3 issues were reported as “pending” or “action delayed”. We will verify and close these issues when they are reported as “implemented.”
- 2 issues were reported as “not implemented.”
- 8 issues – we did not receive responses from management on these issues.
- All OCI issues are “implemented” and were verified and closed by internal audit.

**Recommendation**

No action is required.

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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. | Px            | 01/07/02           |

**Division:** Financial Administration

**Section:** Loan Servicing

**Issue:** Improve Collection of Loan Documentation Procedures

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

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

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

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

**Status:**

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

|    |          |           |
|----|----------|-----------|
| 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 |           |

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 11             | 10/5/2007<br>Internal Audit           | Internal Audit Report on the 9% Competitive Housing Tax Credit Program - Compliance Revi<br>The scope included consideration of the pre-application and notification processes of the ho | Px            | 10/07/07           |
|                |                                       |  | Nr            | 06/12/09           |
|                |                                       |  | Ix            | 02/23/10           |

**Division:** Multifamily

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

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

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

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

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

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

**Status:**

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

06/12/09 -

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

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

**Division:** Multifamily

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

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

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

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

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

**Status:**

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

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

**Division:** Multifamily

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

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

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

**Status:**

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

06/12/09 -

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 16             | 10/5/2007<br>Internal Audit           | Internal Audit Report on the 9% Competitive Housing Tax Credit Program - Compliance Revi<br>The scope included consideration of the pre-application and notification processes of the ho | Px            | 10/07/07           |
|                |                                       |  | Nr            | 06/12/09           |
|                |                                       |  | Px            | 02/23/10           |

**Division:** Multifamily

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

**Issue:** The Multifamily Finance Production Division has not followed up on their RP-36 Risk Assessment by developing a risk mitigation action plan to document the controls in place to address unmitigated high and medium risks, nor a monitoring plan to document how they will test the operating effectiveness of the identified controls. The division has not documented how 28 unmitigated risks (23 high risks, 5 medium risks) identified as 'mission critical' will be mitigated with compensating controls.

The Multifamily Finance Production Division should follow Department requirements by developing a risk mitigation action plan to address the 28 unmitigated 'mission critical' risks identified during the Division's risk assessment. In addition, a monitoring plan should also be developed documenting how the Division plans to assess the operating effectiveness of the documented controls on an on-going basis.

**Status:**

02/23/10 - Management is still working to complete the Risk Mitigation Action Plan.

06/12/09 -

10/07/07 - Multifamily was one of the first divisions to complete the RP-36 Risk Assessments. The Action Plan needs to be put into the Enterprise format, which will be done.



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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            | 12/19/07           |

**Division:** Information Systems

**Section:** Not Selected

**Issue:** Mitas Vendor Access / Change Management

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

Recommendation

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

**Status:**

- 02/16/10 - On February 29, 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19, 2008. These procedures are implemented.
- 09/17/09 - Auditors read issue to be partially verified as implemented by Deloitte and still need verification for the following:  
  
"there is no formal documentation that can evidence management approval and successful testing within a test environment before a change is made by the vendor in the production environment."
- 06/26/08 - Reported to Board as Implemented per Management.
- 04/22/08 - On February 29 2008, Information Systems Division (ISD) updated the applicable written procedures to include the exact process for using the shared email folder to document management approval and successful testing of vendor changes. Financial Administration received and approved the changes on March 19. 2008. These procedures are implemented.
- 12/19/07 - On December 18, 2007, the Information Systems Division (ISD) created a shared email folder to house correspondence related to Mitas system access, testing, and software changes. Mitas system users and ISD staff are able to copy email correspondence to this folder. By January 31, 2008, the Financial Administration Division and ISD will update the applicable written procedures to include the exact process for using the folder to document management approval and successful testing of vendor changes.

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|----------------|---------------------------------------|--|---------------|--------------------|
| 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 |

**Division:** Multifamily

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

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

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

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

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

**Recommendation**

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

**Status:**

02/23/10 - This notification was added to the applicant certification in the uniform application.

06/12/09 -

12/11/07 - Staff will implement the audit recommendation and include this requirement in the Uniform Application and the application review forms, and/or the QAP for the 2009 Tax Cycle.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 32             | 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 3/31/2008 |
|                |                                       |  | Nr            | 06/12/09           |
|                |                                       |  | Ix            | 02/23/10           |

**Division:** Multifamily

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

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

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

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

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

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

Recommendation

The Department should:

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

**Status:**

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

06/12/09 -

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 33             | 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 3/31/2008 |
|                |                                       |  | Nr            | 06/12/09           |
|                |                                       |  | Ix            | 02/23/10           |

**Division:** Multifamily

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

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

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

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

**Recommendation**

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

**Status:**

02/23/10 - An electronic tracking system has been established and is maintained between divisions to mitigate this issue. All deficiencies are linked to the electronic tracking.

06/12/09 -

12/11/07 - Staff will implement the audit recommendation and create a system to document deficiencies and changes.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>    |
|----------------|---------------------------------------|--|---------------|-----------------------|
| 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>7/31/2008 |
|                |                                       |  | Nr            | 06/12/09              |
|                |                                       |  | Ix            | 02/23/10              |

**Division:** Multifamily

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

**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.

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

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

06/12/09 -

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

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| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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 10/1/2008 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

Px 06/11/08 10/1/2008  
Px 12/01/08 2/20/2009  
Ix 06/15/09

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

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

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

**Recommendations**

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

**Status:**

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 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 10/31/2008 |
|                |                                       |  | Px            | 12/01/08 2/20/2009  |
|                |                                       |  | Ix            | 06/15/09            |

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



| <u>Issue #</u>                            | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|---|---------------------------------------|--|---------------|--------------------|
| 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 8/15/2008 |
| <b>Division:</b> Community Affairs        |                                       |  | Px            | 12/01/08 3/31/2009 |
| <b>Section:</b> Community Services - CSBG |                                       |  | Ix            | 06/15/09           |

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

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

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

**Recommendation**

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

**Status:**

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

| <u>Issue #</u>   | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|--|---------------------------------------|--|---------------|--------------------|
| 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 1/1/2009  |
| <b>Division:</b> Community Affairs   |                                       |  | Px            | 12/01/08 3/31/2009 |
| <b>Section:</b> Community Services - CSBG  |                                       |  | Ix            | 06/15/09           |
| <b>Issue:</b> Chapter 3-B<br>The Review of Subrecipient Financial Information Should Be Improved |                                       |  | Px            | 06/17/09 7/30/2009 |
|  |                                       |  | Nr            | 03/01/10           |

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

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

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

**Recommendations**

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

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

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

**Status:**

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.

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

| <u>Issue #</u>  | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|---|---------------------------------------|--|---------------|--------------------|
| 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 11/1/2008 |
| <b>Division:</b> Community Affairs  |                                       |  | Px            | 12/01/08 1/31/2008 |
| <b>Section:</b> Community Services - CSBG   |                                       |  | Nr            | 06/12/09           |
| <b>Issue:</b> Chapter 3-C<br>Criteria for Cost Reimbursement Should Be Identified |                                       |  | Px            | 06/17/09 7/30/2009 |
|   |                                       |  | Nr            | 03/01/10           |

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:**

03/01/10 -

06/17/09 - The TAC rules have been revised to address "sanctions" in §5.17 "Sanctions and Contract Close Out". The Sanctions SOP will be revised to incorporate the TAC revisions.

06/12/09 -

12/01/08 - The Texas Administrative Code Rules have been revised to address "Sanctions" in §5.17 "Sanctions and Contract Close Out". The TAC Rules will be codified in January 2009. The Sanctions SOP will be revised to incorporate the TAC revisions.

06/11/08 - The existing Sanctions Standard Operating Procedure will be revised to define the range of sanctions that can be used for the various types of monitoring findings or issues of non-compliance and how and when the sanctions will be applied.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>    |
|----------------|---------------------------------------|--|---------------|-----------------------|
| 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>9/30/2008 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

Px 06/11/08 9/30/2008  
Px 12/01/08 5/31/2008  
Ix 06/15/09

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

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

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

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

Recommendation

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

**Status:**

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

| <u>Issue #</u>                            | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>    |
|---|---------------------------------------|--|---------------|-----------------------|
| 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>9/1/2008  |
| <b>Division:</b> Community Affairs        |                                       |  | Px            | 12/01/08<br>3/31/2009 |
| <b>Section:</b> Community Services - CSBG |                                       |  | Ix            | 06/15/09              |

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

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

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

**Recommendations**

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

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

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

**Status:**

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

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 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 10/31/2008 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

|    |          |            |
|----|----------|------------|
| Px | 06/11/08 | 10/31/2008 |
| Px | 12/01/08 | 5/31/2009  |
| Dx | 06/15/09 |            |
| Nr | 03/01/10 |            |

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.



| <i><u>Issue #</u></i> | <i><u>Report Date</u></i><br><i><u>Auditors</u></i> | <i><u>Report Name</u></i><br><i><u>Audit Scope</u></i> |
|-----------------------|---|--|
|-----------------------|---|--|

**Status:**

03/01/10 -

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

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

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

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

| <u>Issue #</u>                            | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|---|---------------------------------------|--|---------------|--------------------|
| 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 10/1/2008 |
| <b>Division:</b> Community Affairs        |                                       |  | Px            | 12/01/08 3/31/2009 |
| <b>Section:</b> Community Services - CSBG |                                       |  | Ix            | 06/15/09           |

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

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

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

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

**Recommendations**

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

**Status:**

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 48             | 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 11/13/2008 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

|    |          |            |
|----|----------|------------|
| Px | 06/11/08 | 11/13/2008 |
| Px | 12/01/08 | 5/31/2009  |
| Px | 06/15/09 | 5/31/2010  |
| Nr | 03/01/10 |            |

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

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

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

**Recommendations**

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

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

**Status:**

03/01/10 -

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

12/01/08 - The Community Affairs Division has formed an advisory committee of subrecipients to recommend changes to the CSBG performance awards process. The first meeting of the committee will be 12/15/08. It is anticipated that the committee will complete the project by 3/31/09. Staff will make recommendations to the Executive Team and/or Governing Board to revise internal procedures and amend TAC rules related to the performance awards process.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u>  | <u>Report Name</u><br><u>Audit Scope</u> |
|----------------|--|--|
| 06/11/08 -     | To the degree that Performance Awards are utilized, and that transitioning people out of poverty is the measurement used to grant performance awards, staff will recommend that the Texas Administrative Code be revised to include a standard methodology for calculating income to ensure consistent and comparable results. Prior to conferring CSBG performance awards, the Department will select a random sample of client files to verify the accuracy of the data used for granting performance awards. Staff will provide clarification to subrecipients on the criteria that need to be met to report a client as transitioned out of poverty. The Department will require that the subrecipient's executive director and/or program director certify in writing that the clients were transitioned out of poverty as reported. Staff will revise the eligibility criteria for CSBG performance awards to exclude clients who were hired by the subrecipient and consequently transitioned out of poverty. |  |
|                | Staff will research a reasonable procedure by which subrecipients can verify the validity of social security numbers to the extent they are provided.  |  |

|    |                             |  |               |                    |
|----|-----------------------------|--|---------------|--------------------|
| 49 | 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 | <u>Status</u> | <u>Target Date</u> |
|    |                             |  | Px            | 06/11/08 1/1/2009  |
|    |                             |  | Px            | 12/01/08 5/31/2009 |
|    |                             |  | Px            | 06/15/09 5/31/2010 |
|    |                             |  | Nr            | 03/01/10           |

**Division:** Community Affairs  
**Section:** Community Services - CSBG

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

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

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

**Status:**

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>   |
|----------------|---------------------------------------|--|---------------|----------------------|
| 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>1/1/2010 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

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

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

Recommendation

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

**Status:**

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>   |
|----------------|---------------------------------------|--|---------------|----------------------|
| 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>9/1/2008 |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

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

**Recommendation**

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

**Status:**

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

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 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 12/31/2008 |
|                |                                       |  | Px            | 12/01/08 3/31/2009  |
|                |                                       |  | Ix            | 06/15/09            |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

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

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

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

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

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

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

**Recommendation**

Community Services should develop processes to ensure that:

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

| <i>Issue #</i> | <i>Report Date</i><br><i>Auditors</i> | <i>Report Name</i><br><i>Audit Scope</i> |
|----------------|---------------------------------------|--|
|----------------|---------------------------------------|--|

**Status:**

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

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

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



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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 9/1/2008  |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

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

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:**

03/01/10 -

06/19/09 - After reviewing the ESGP Monitoring Instrument, the following items were noted:

1. The revised ESGP Monitoring Instrument DID include provisions for a program officer to review timesheets
2. The Monitoring Instrument did NOT include a requirement for time reported to be compared and verified for actual time worked.
3. The Monitoring Instrument did NOT include a requirement for compliance with Circulars A-122 and A-87.

06/15/09 - Emergency Shelter Grant Program Monitoring instrument was revised March 9, 2009 to address requirements related to timesheets.

12/01/08 - The ESGP Monitoring instrument will be revised to address requirements related to timesheets.

06/11/08 - The Emergency Shelter Grants Program (ESGP) monitoring instrument will be revised to expand the questions, and oversight, related to the review of subrecipient timesheets as required by OMB Circulars A-122 and A-87 and as further clarified by the Department's Legal Division.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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 9/1/2008  |

**Division:** Community Affairs

**Section:** Community Services - CSBG

**Issue:** Chapter 6-D  
Subrecipients Should Document the Review of Client Eligibility Prior to Providing Funding for Essential Services

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:**

06/17/09 - ESGP Monitoring instrument was revised to indicate client eligibility requirements.

06/12/09 -

12/01/08 - The ESGP Monitoring instrument will be revised to affirm the eligibility of clients for essential services.

06/11/08 - Intake forms are currently required for homelessness prevention services provided directly to the clients such as rental subsidies and utility payments. When subrecipients provide essential services that include food, bus tokens and personal hygiene items (such as soap and shampoo), subrecipients maintain a log detailing client names. However, staff will improve on this tool so that it has the ability to affirm eligibility of clients for essential services.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 62             | 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 7/31/2009 |

**Division:** HOME

**Section:** Contract for Deed

**Issue:** Chapter 1-B

Condition: A. In five of twenty-three paid in full (zero balance) homebuyer assistance loans tested (21.7%), the Department did not collect the correct amount from the borrower. For example, we found one loan that was paid off in May 2007. This loan provided for 1/10 of the principal balance to be forgiven in each year of the ten-year term of the loan. The payoff was for the full amount, even though one year of principal should have been forgiven. This resulted in \$1,000 overpayment by the homeowner that has not yet been refunded almost two years later.

B. Contract for deed HUD-I settlement statements are not reviewed in a timely manner Six of twenty-nine (20.7%) homebuyer assistance files tested did not reflect the accurate principal balance. In six of six files tested (100%), the final closing costs were less than estimated. In four of the six files (66.7%), the reduction to the principal balance of the deferred loan was not posted to the homeowner's account.

Cause: The balances for these loans were not accurately recorded in MITAS, which is the Department's internal accounting system used to track loans. The inaccurate balance information in MITAS resulted in the inaccurate recapture of funds from borrowers who sold their property. The Department is not in compliance with the terms of the note for the down payment assistance program, resulting in an overstatement of the loan balances.

Criteria: The Department of Housing and Urban Development (HUD) requires that program income be used to fulfill draw requests prior to requesting program year funding.

Effect: A. We noted instances where borrowers were due money which had not yet been paid. Payments were not posted on the anniversary date as required by the note. B. Although unused funds are returned to the appropriate HOME program year, the homeowners' loan balances are not reduced by the loan servicing department until instructed by HOME staff, which may take as long as a year.

Recommendation: The Department should:

A. ensure that the information in the MITAS system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan, and refund overpayments promptly

B review the contract for deed HUD-I settlement statements and reduce the loan balance in a timely manner.

**Status:**

- 10/01/09 - Procedures have been implemented to ensure that the daily deferral process is run in the absence of the primary person assigned to perform this function. Team leader is reviewing the monthly management report to insure that there are not any outstanding deferrals. Loan setup audits are being reviewed monthly by loan specialist staff responsible for setting up new loans. Procedures have been implemented to insure that any refunds due, as a result of a payoff, are processed timely.
- 06/12/09 - Loan Servicing staff will implement procedures to insure that Mitas system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan. And refunds of overpayments are done timely. (David Cervantes - Financial Administration)
- 06/11/09 - In order to ensure review and accurate reconciliation of borrower loan balances in the Department's systems, the HOME Division has amended its Loan Closing Standard Operating Procedure (SOP) to delineate a subprocess for review of the HUD-1 Settlement Statement and updating loan balances, as necessary, in the loan servicing system. In addition to the SOP, the Loan Closing Fule Table of Contents, the Table Funding Checklist for Loan Activities, and Contract for Deed Draw Request Checklist--Form 16.11, indicated different levels of review regarding the Borrower's HUD-1 Settlement Statement. (Jeannie Arellano - HOME)
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto). Within the next 90 days, management will also ensure that refunds are addressed timely (Stephanie D'Couto) and will put a process in place to review the HUD-I and communicate adjustments timely (Lora Myrick).

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 62             | 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 7/31/2009 |

**Division:** Financial Administration

**Section:** Loan Servicing

**Issue:** Chapter 1-B

Condition: A. In five of twenty-three paid in full (zero balance) homebuyer assistance loans tested (21.7%), the Department did not collect the correct amount from the borrower. For example, we found one loan that was paid off in May 2007. This loan provided for 1/10 of the principal balance to be forgiven in each year of the ten-year term of the loan. The payoff was for the full amount, even though one year of principal should have been forgiven. This resulted in \$1,000 overpayment by the homeowner that has not yet been refunded almost two years later.

B. Contract for deed HUD-I settlement statements are not reviewed in a timely manner Six of twenty-nine (20.7%) homebuyer assistance files tested did not reflect the accurate principal balance. In six of six files tested (100%), the final closing costs were less than estimated. In four of the six files (66.7%), the reduction to the principal balance of the deferred loan was not posted to the homeowner's account.

Cause: The balances for these loans were not accurately recorded in MITAS, which is the Department's internal accounting system used to track loans. The inaccurate balance information in MITAS resulted in the inaccurate recapture of funds from borrowers who sold their property. The Department is not in compliance with the terms of the note for the down payment assistance program, resulting in an overstatement of the loan balances.

Criteria: The Department of Housing and Urban Development (HUD) requires that program income be used to fulfill draw requests prior to requesting program year funding.

Effect: A. We noted instances where borrowers were due money which had not yet been paid. Payments were not posted on the anniversary date as required by the note. B. Although unused funds are returned to the appropriate HOME program year, the homeowners' loan balances are not reduced by the loan servicing department until instructed by HOME staff, which may take as long as a year.

Recommendation: The Department should:

A. ensure that the information in the MITAS system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan, and refund overpayments promptly

B review the contract for deed HUD-I settlement statements and reduce the loan balance in a timely manner.

**Status:**

- 10/01/09 - Procedures have been implemented to ensure that the daily deferral process is run in the absence of the primary person assigned to perform this function. Team leader is reviewing the monthly management report to insure that there are not any outstanding deferrals. Loan setup audits are being reviewed monthly by loan specialist staff responsible for setting up new loans. Procedures have been implemented to insure that any refunds due, as a result of a payoff, are processed timely.
- 06/12/09 - Loan Servicing staff will implement procedures to insure that Mitas system reflects the actual account balance when processing loan payoffs, ensure that annual payment forgiveness is recorded on the anniversary date of the loan. And refunds of overpayments are done timely. (David Cervantes - Financial Administration)
- 06/11/09 - In order to ensure review and accurate reconciliation of borrower loan balances in the Department's systems, the HOME Division has amended its Loan Closing Standard Operating Procedure (SOP) to delineate a subprocess for review of the HUD-1 Settlement Statement and updating loan balances, as necessary, in the loan servicing system. In addition to the SOP, the Loan Closing Fule Table of Contents, the Table Funding Checklist for Loan Activities, and Contract for Deed Draw Request Checklist--Form 16.11, indicated different levels of review regarding the Borrower's HUD-1 Settlement Statement. (Jeannie Arellano - HOME)
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto). Within the next 90 days, management will also ensure that refunds are addressed timely (Stephanie D'Couto) and will put a process in place to review the HUD-I and communicate adjustments timely (Lora Myrick).

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 63             | 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           |
|                |                                       |  | Dx            | 10/01/09           |
|                |                                       |  | Ix            | 02/19/10           |

**Division:** Financial Administration

**Section:** Loan Servicing

**Issue:** Chapter 2

Condition: Once eligibility is determined and construction is complete, no further monitoring of the homeowner or the property is conducted to ensure the property continues to the primary residence of the borrower.

Cause: The Department has not taken reasonable measures to verify that the property continues to be the homeowner's principal residence throughout the period of affordability.

Criteria: HUD home loans require the homeowner to use the property as his/her principal residence for the term of the period of affordability.

Effect: The Department risks being cited by HUD for non-compliance.

Recommendation: The Department should develop a method to help ensure that the principal residence requirement is met for those properties that require it and for which the Department is the first lien holder. Some options for this include:

- consistently collecting property tax and insurance receipts,
- verifying the homeowner's homestead exemption via the property tax receipt or the tax rolls,
- verifying mail service or utility bills,
- community outreach or periodic inspections, or
- asking the homeowner to sign and submit an annual document certifying that the property is their principal residence.

**Status:**

- 02/19/10 - The Loan Servicing section has created a testing mechanism to verify if propety is homeowner's primary residence. Management developed a method to periodically test primary residency for HOME Program loans with primary residency requirements.
- 10/01/09 - Management will be meeting within the next few weeks to determine which loans are affected, what is the best way to verify this information and which division will be responsible for this task.
- 05/06/09 - Management agrees with the recommendations and will in the next 90 days be revising the mechanism for forgiveness in new loans (Lora Myrick) and develop a mechanism for recording forgiveness based on confirmation from the owner of continued homeownership for existing loans (Stephanie D'Couto).

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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           |
|                |                                       |  | Ix            | 06/11/09           |

**Division:** HOME

**Section:** HOME Production

**Issue:** Chapter 3-B  
Condition: A certificate of completion or other evidence that verified the completion of construction was not included in eight of the 15 files (53.3%) reviewed.  
Cause: Construction loans are forgiven based on a pre-determined date, rather than evidence that the construction is complete.  
Criteria: To ensure loan provisions are satisfied, completion of construction should be documented prior to loan forgiveness.  
Effect: Without some proof of the completion of construction, the Department could forgive a loan on a property before it is finished.  
Recommendation: The Department should:  
• ensure that the term of the unsecured equity loan is sufficient to guarantee completion of construction prior to the loan maturity date, and  
• obtain and include in the loan servicing file the documentation verifying the completion of construction.

**Status:**

- 06/11/09 - To ensure loan provisions are satisfied and completion of construction is documented prior to loan forgiveness, the Division has a series of documents required for each loan file. The Department requires Contract Administrators undertaking construction activities execute a Construction Loan Agreement (CLA), which indicates a construction completion date and requires the Owner to acknowledge that before a final disbursement is made under the agreement, the Owner must provide a signed Affidavit of Completion, Form 11.27 the Department. In addition to the CLA, Division staff verifies construction completion of the housing unit by requiring Department Form 11.03-Final Inspection, which inspects housing conditions for compliance with applicable construction standards, specifications, and codes. This information is reviewed and provided as support documentation prior to the Final Draw Request Checklist--Form 16.26 and release of funds from the Department. Finally, in order to evidence both the construction completion date and loan maturity date, the Department executes a Deed of Trust and Promissory Note with households receiving construction assistance.
- 05/06/09 - Management agrees with the recommendations and will, in the next 90 days be revising the mechanism for forgiveness including documented assurances that the construction has been completed (Lora Myrick)

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |           |
|----------------|---------------------------------------|--|---------------|--------------------|-----------|
| 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           | 5/30/2007 |

**Division:** Community Affairs

**Section:** Energy Assistance

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

|    |          |           |
|----|----------|-----------|
| Px | 12/20/06 | 5/30/2007 |
| Px | 03/02/07 | 5/30/2007 |
| Px | 04/23/07 | 5/30/2007 |
| Px | 06/26/07 | 7/30/2007 |
| Dx | 08/02/07 | 11/1/2007 |
| Dx | 04/22/08 |           |
| Dx | 12/01/08 |           |
| Dx | 06/12/09 |           |
| Dx | 02/12/10 |           |

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:



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u> |
|----------------|---------------------------------------|--|
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- 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:**

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.



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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           |

**Division:** Community Affairs

**Section:** Community Services - CSBG

|    |          |           |
|----|----------|-----------|
| Px | 06/11/08 |           |
| Px | 12/01/08 | 2/28/2009 |
| Ix | 06/15/09 |           |

**Issue:** Chapter 6-E  
Standard Forms and Processes Should be Developed to Document the Sample of Expenditures and Client Files Reviewed During Monitoring

There are no written procedures for documenting the shelters visited and expenditures reviewed by the program officers during on-site monitoring visits. In addition, the contract specialist performs reviews of monthly expenditures, but does not document the results of these reviews. Finally, there is no written procedure regarding how many client files should be reviewed during an on-site monitoring visit. For example, one program officer may review 12 client files while at another subrecipient, they may only review three client files.

**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.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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           |

**Division:** Community Affairs

**Section:** Community Services - CSBG

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

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

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

The advantages are:

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

The disadvantages are:

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

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

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

**Recommendation**

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

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 81             | 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 3/31/2009 |

**Division:** Bond Finance

**Section:** Not Selected

**Issue:** Chapter 1-A  
The Department Could Improve Its Monitoring of Program Cash Flows and Its Program Master Servicer and Trustee

The Department effectively monitors its cash flows to ensure that actual revenues from mortgage payments are sufficient to meet debt service payments on a timely basis. However, the Department could improve its monitoring of cash flows by:

- More closely monitoring mortgage-backed securities to ensure that the purchase price is based on the total principal of the underlying mortgages contained in the securities.
- Reconciling mortgage payment data received from the Program master servicer and trustee to ensure the Program trustee is accurately accounting for Program funds.

The Department could also improve its monitoring of the Program master servicer by assessing risk and developing a monitoring plan to ensure the master servicer complies with Program requirements.

The Department should document its current procedures for issuing Program bonds. The Department has not documented its procedures for issuing bonds under the Program. Detailed, written policies and procedures are a key management control that helps the Department ensure that desired results are achieved and that current procedures are continued in the event of staff turnover.

**Recommendations**

The Department should improve its monitoring of cash flows by:

- Expanding its mortgage-backed security purchase reconciliation process to include verification of pool purchases by individual mortgage principal amounts.
- Reconciling mortgage payment data and bond redemption schedules received from Countrywide and The Bank of New York Mellon Corporation to ensure that Program bonds are redeemed timely.
- Developing a risk-based compliance monitoring process of its master servicer to ensure all Program requirements are met.
- Document its current policies, procedures, and control processes for issuing Program bonds.

**Status:**

01/21/09 - Bond Finance has developed and implemented Standard Operating Procedures for issuing single family bonds.

11/07/08 - TDHCA plans to conduct a compliance-related audit of loans funded in FY2008 before March 31, 2009. 1,990 Program loans were closed and funded in FY2008 and TDHCA plans to audit a sample of these loans. These sample loans will also be audited to ensure that they, coupled with other related loans, accurately match the purchase price of the underlying mortgage-backed security.

08/18/08 - The Department agrees to implement these recommendations as follows:

The Department intends to reconcile the individual loan pools purchased to the principal amounts of the underlying mortgages to ensure pool purchase prices are accurate. To accomplish this, the Department anticipates contracting with an independent third party provider to perform program monitoring responsibilities.

Person Responsible: Director of Texas Homeownership Division

In April 2008, a process was implemented to compare pool level repayment data provided by Countrywide to the financial data reported by Bank of New York on a monthly basis. To date, no discrepancies have been found. Additionally, effective June 2008, the semi annual Bank of New York supplemental payment schedules were reconciled to actual cash receipts for the previous six month period. The Department will continue these reconciliations semiannually.

Person(s) Responsible: Financial Services Team Leader; Bond Financial Analyst

In order to supplement and enhance the current agreement with Countrywide to perform a tax compliance review on each loan, the Department proposes to develop a risk-based compliance monitoring process of its Master Servicer in conjunction with an independent third party provider.

Person Responsible: Director of Texas Homeownership Division

The Department intends to consolidate documentation on its current policies, procedures, and control processes by preparing a Standard Operating Procedure for issuing bonds. The Department currently maintains detailed bond transcripts, flow charts, calendars, board resolutions, applications and documents indicating compliance with all applicable laws and regulations.

Person Responsible: Bond Financial Analyst

| <u>Issue #</u>                       | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|--------------------------------------|---------------------------------------|--|---------------|---------------------|
| 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 11/30/2008 |
| <b>Division:</b> Information Systems |                                       |  | Px            | 11/08/08 11/30/2008 |
| <b>Section:</b> Not Selected         |                                       |  | Ix            | 01/21/09            |

**Issue:** Chapter 3-A  
The Department Has Not Configured Its Internal Accounting System to Maintain Audit Trails

Although the Department controls access to the MITAS System through the use of user logins and passwords, it has not enabled the audit trail feature in the MITAS System. The MITAS System is the Department's internal accounting system for the Program; it contains general Program loan information, but it does not contain specific confidential information of Program borrowers. The MITAS System is an accounting software package the Department purchased from the MITAS Group. Audit trails maintain a transaction and logging history for a system. Without audit trails, the Department cannot consistently identify who created a transaction or changed data or when the activity occurred. This weakness may hinder any Department efforts to identify and resolve the source of errors or unauthorized changes to its data.

If unauthorized changes are made, it may limit the Department's ability to identify the source of the change and accurately reconcile Program funds. The Texas Administrative Code requires agencies to maintain appropriate audit trails based on a documented security risk assessment.

**Recommendation**

The Department should perform a risk assessment to determine whether it should enable the audit trail function in the MITAS System and implement the resulting decision.

**Status:**

- 01/21/09 - The department completed the MITAS risk assessment on November 24, 2008, and implemented the resulting audit trail decisions.
- 11/08/08 - The Department is currently performing the Mitas risk assessment and expects to be complete with it and associated audit trail decisions by November 30, 2008. The Department has reconfigured the current server environment to allocate disk space for any required system logging, based on the risk assessment
- 08/18/08 - The Department agrees with the recommendation and will perform a risk assessment to decide whether it should enable the MITAS audit trail function. Because of resource limitations on the server hardware that currently houses MITAS, the Department will also upgrade the hardware to add the disk space required for increased system logging.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 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 11/30/2008 |

**Division:** Information Systems

**Section:** Not Selected

Px 08/18/08 11/30/2008  
Px 11/08/08 11/30/2008  
Ix 01/23/09

**Issue:** Chapter 3-C  
The Department Has Not Conducted a Security Risk Assessment Since 2005

Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), recommends that state agencies adopt 24 security policies and other information technology security controls based on a documented security risk assessment. The Department performed an agency-wide risk assessment in 2005, including an assessment of the security over information systems and its controls over high-impact information system processes. The Department reviewed the controls over these high impact information system processes again in 2006. The Department did not document its reasons for not implementing an information security control and eight of the policies recommended in 1 TAC 202.25. Auditors communicated details of these system security weaknesses to Department management. The Department could improve its information technology security by conducting a security risk assessment and addressing any weaknesses it identifies.

Recommendation

The Department should perform, document, and implement (as appropriate) a security risk assessment.

**Status:**

- 01/23/09 - On January 23, 2009, the Department completed an updated security risk assessment which addresses controls listed in Title 1, Texas Administrative code, Section 202.25. The risk assessment documents existing and recommended information security policies and other controls and established a target date for implementing each recommendation.
- 11/08/08 - The Department is in the process of performing an updated security risk assessment, which addresses controls listed in Title 1, Texas Administrative Code, Section 202.25.
- 08/18/08 - The Department agrees with the recommendation and has created a security policy upgrade plan which includes the step of performing an updated security risk assessment.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|--|---------------|---------------------|
| 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 10/31/2008 |
|                |                                       |  | Px            | 11/07/08 8/31/2009  |
|                |                                       |  | Ix            | 01/21/09            |

**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:**

01/21/09 - Amend existing contracts as they are renewed.

11/07/08 - Existing contracts will be amended when they are renewed and all future contracts will contain the language to allow the State auditors office authority and access to records.

08/18/08 - The Department agrees to comply with statutory requirements relating to program contracts. The Department will review and amend all contracts to include terms granting the State Auditor audit authority and access to records as contracts are renewed. The Department has already incorporated Section 2262.003 of the Texas Government Code in the Request for Proposal for Underwriting Services and Request for Proposal for Master Servicer to be presented to the Board at the September 4, 2008 meeting, which included terms granting the State Auditor audit authority and access to records.



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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            | 08/18/08           |
|                |                                       |  | Ix            | 11/08/08           |

**Division:** Information Systems

**Section:** Not Selected

**Issue:** Chapter 3-D  
The Department Does Not Conduct Tests of Its Disaster Recovery Plan in a Timely Manner

The Department conducted a test of its disaster recovery plan in June 2008. Prior to that time, the Department had not conducted a complete test since January 2006. Title 1, Texas Administrative Code, Section 202.24, and Department policy requires an annual test of the disaster recovery plan. A disaster recovery plan outlines steps staff should take to secure or recover information when a natural disaster or other business disruption prevents normal operations. Conducting timely tests of its disaster recovery plan can help the Department decrease its risk of losing data in the event of a disaster and ensure that the Department's mission-critical functions can be resumed as quickly as possible.

**Recommendation**

The Department should conduct a test of its disaster recovery plan at least annually and when major changes are made to the plan.

**Status:**

- 11/08/08 - The Department will conduct complete tests of its disaster recovery plan on an annual basis and when major changes are made to the plan
- 08/18/08 - The Department agrees with the recommendation and will conduct complete tests of its disaster recovery plan on an annual basis and when major changes are made to the plan. The Department notes that although a complete test of its disaster recovery plan was not completed in fiscal year 2007, it carried out disaster recovery testing activities such as restoring databases and files from backup tapes and evaluating backup scripts and schedules. Additionally, the Department's Disaster Recovery Team engaged in planning activities for the June 2008 test at intervals throughout fiscal year 2008.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 112            | 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 | Nx            | 07/27/09           |

**Division:** Community Affairs

**Section:** Community Services - CSBG

**Issue:** Finding 1

- The State needs to comply with the policies and procedures for examining the accuracy of the financial functions and processes to reflect direct and indirect costs charged to CSSG funding stream and expenditures in accordance with Federal regulations.
- We recommend the State:
  - o1.1 Comply with fiscal controls in accordance with State and Federal regulations and submit the 269's in accordance with 45 CFR §92.40, §92.41, 96.14 and §96.30(b)(4).
  - o1.2 Revise and/or implement the State's Fiscal policy and procedures to improve fiscal controls for CSBG funding.
  - o1.3 Provide a copy of the State policy regarding indirect and administrative cost(s) posted to the General Ledger.
  - o1.4 Follow the State's policies for the disbursement of CSBG funds.

**Status:**

07/27/09 - Recommendation 1.1: The State submitted all FSRs for program year 2006 in compliance with 45 CFR, Sections 92.40, 92.41 and 96.30 (b)(4). The first and second reports were submitted December 20, 2006, and December 12, 2007. The final report was submitted December 16, 2008. Copies of the SF-269's are attached.

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

In addition to these opinions, the State is confident in its compliance with all Fiscal and Governance operations. A comprehensive review would reveal that the State goes through a rigorous oversight process. This process begins with a Federal application process resulting in the issuance of the grant award. The process continues through a State Legislative Budget Process that further provides appropriation authority of these funds to TDHCA. The Legislature requires extensive reporting of performance measures and financial data regarding all federal funds made available to the State. The Governor subsequently signs the biennial appropriations bill into law, and TDHCA supplements this process by implementing extensive fiscal and programmatic controls to ensure that it meets State and Federal requirements. TDHCA maintains PeopleSoft as its system of record to track Federal Program Activity. The system is structured to identify each grant separately and to comply fully with GASB and GAAP. The TDHCA utilizes General Ledger, Accounts Payable, Grant Module, and Purchase Request workflow. It fully interfaces with the State Comptroller and integrates with the Uniform Statewide Payroll System. These modules track grant activity and ensure that a clear trail exists to track each transaction down to the transaction level. Documentation is maintained in permanently scanned repository. Payroll records are supported by timesheets that are reconciled on a monthly basis. There are also further controls established such as drawdown logs to ensure compliance with specific grant requirements. The State also operates under an approved indirect cost rate agreement for recovery of its indirect administrative costs. This agreement is reviewed, reconciled and approved by the U.S. TDHCA of Housing and Urban Development (HUD) on a yearly basis. Please refer to the attached Indirect Cost Rate Agreement dated June 8, 2007. A series of documents to further document our contention of sound fiscal controls and practices are available for review. These documents include a Legislative Appropriations Request (LAR); the Bill that was adopted by the Governor; Internal Operating Budget approved by the TDHCA Board; Indirect Cost Rate Agreement approved by the U.S. TDHCA of Housing and Urban Development; General, Payroll, Travel, Accounts Payable, and Grant policies and procedures.

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 113            | 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 | Px            | 07/27/09           |
|                |                                       |  | Nr            | 03/01/10           |

**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:**

03/01/10 -

07/27/09 - Recommendation 2.1: TDHCA has a process that includes criterion for awarding CSBG Performance Awards for several years. The process for the 2006 awards was communicated to CSBG eligible entities on June 18, 2004, in CSBG Memorandum #04-12.4, which is included in this response.

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

The attached CSBG Memorandum describes the criteria for an organization to be eligible to apply for a performance award. Additionally, organizations that reported persons transitioned out of poverty were required to submit information which included the name of the head of household, the income of the household during the initial visit, the first month when the household income was above 125% of the federal poverty guidelines, and 90 days after maintaining an income above 125% of the federal poverty guidelines. The Department compared the number of persons transitioned to the numbers which had been reported in the CSBG monthly performance reports. Program officers, monitors, were also required to review documentation related to such during on site monitoring reviews.

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

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 114            | 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 | Px            | 07/27/09           |
|                |                                       |  | Nr            | 03/01/10           |

**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:**

03/01/10 -

07/27/09 - Recommendation 3.1: CSBG eligible entities inform persons seeking CSBG assistance about the services available through the Texas Attorney General's Office for the collection of child support. The Department has revised the 2009 CSBG Monitoring Instrument to add specific questions regarding the requirements related to informing custodial parents in single-parent families about the availability of child support services and refer eligible parents to the child support offices.

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

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

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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.

|     |                  |  |  |  |
|-----|------------------|--|--|--|
| 116 | 4/17/2009<br>HUD | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs |  |  |
|-----|------------------|--|--|--|

**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:**

- 01/25/10 - Since the last quarter 24 HOME properties have cleared all of their noncompliance issues. Staff continues to work with HOME properties on corrections and reports to HUD regularly.
- 06/30/09 - The Department is working to bring about restored compliance and achieve required affordability through a combination of thorough and regular monitoring, enhanced technical assistance, the initiation of the administrative penalty process, and informal conferences.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 117            | 4/17/2009<br>HUD                      | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs | Px            | 06/30/09           |

**Division:** Financial Administration

**Section:** Not Selected

Px 06/30/09  
Ix 09/17/09  
Ix 09/17/09

**Issue:** Finding #3 The HOME regulations found at 24 CFR 92.207(a) are very specific that HOME administration funds may only be used for administration of HOME activities. The information provided by TDHCA on March 30, 2009, pertaining to HOME index 00880 notes that \$209,380.61 of HOME administration funds were used to offset FEMA Program shortages. The state was advised that this action was neither appropriate nor acceptable.

Required Corrective Action: TDHCA must immediately cease using HOME funds to pay the shortages of another program to provide HUD with assurances that it has done so. It must review its accounting records for the period January 1, 2005 to current and provide HUD with information listed on report (pg. 27). In addition, TDHCA must calculate the interest that the U.S. Treasury would have earned on the funds from the date the funds were drawn until the date the funds were disbursed for eligible HOME program expenses. The methodology used to calculate the interest, along with a copy of the wire transfer providing evidence of the transfer of interest to HUD must accompany the state's response.

**Status:**

09/17/09 - In reference to the interest calculation on the HOME funds used to offset FEMA expenses that did not include \$209,380.61 of HOME funds that were drawn on September 19 and October 2, 2008, the initial calculation included \$7,018.87 with interest but did not include \$202,361.74.

Attachment A-1 (FEMA) includes \$175,974.79 for FEMA October 2008. The \$7,018.87 on Attachment A-1 (a) identifies the details of FEMA October 2008 activities totaling \$175,974.79.

Attachment A-2 (APS II Benefits) identifies a revised calculation relative to the \$202,361.74 which results in interest of \$1,354.14.

In addition, TDHCA recalculated the interest for FEMA (Attachment A-1) and CDBG 1/11 (Attachment A-3) for periods up to September 7, 2008 which resulted in additional interest of \$73.17.

Attachments A-4 through A-6 includes tables for FEMA, CDBG 1, and CDBG 2 that provides exact dollar amount of HOME funds used to offset shortfalls, the dates funds were disbursed from the local HOME account (shortfalls), the dates the funds were returned to the HOME Program and the dates funds were disbursed for eligible HOME activities. A warrant for the net amount of interest owed of \$1,423.75 is included in this response.

09/17/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.3. The Financial Administration Division responded to this finding in the Department's response to HUD dated September 17, 2009

| <i><u>Issue #</u></i> | <i><u>Report Date</u></i><br><i><u>Auditors</u></i> | <i><u>Report Name</u></i><br><i><u>Audit Scope</u></i>  |
|-----------------------|---|---|
| 06/30/09 -            |   | <p>In the aftermath of Hurricane's Katrina and Rita, the Governor designated the Department as the lead agency for housing. One of the primary responsibilities of the Department was to provide immediate aid to those affected.</p> <p>Weeks later, the Governor declared the situation a Federal Disaster. This declaration granted the Department eligibility to receive emergency funding from the U.S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Administration (FEMA). To receive these funds, the Department was instructed to begin pre-award activities such as planning, public hearings, development of action plans and coordination with other state/federal/local agencies and organizations. During this time, the Department accumulated expenses associated with the pre-award activities. With no dedicated state funding, the Department began experiencing cash flow shortfalls. As the Department awaited the release of federal disaster funds, it was necessary to pay for staff time with traditional federal program funds.</p> <p>A review of the records indicates that HOME funds were used to offset shortfalls in various periods. A cash balance worksheet that summarizes the shortages and time periods in which funds were drawn and disbursed is enclosed (Attachment C). The worksheet also includes a methodology used to calculate interest due to the U.S. Treasury. (A warrant for \$6,027.84 is attached.) The Department also provides assurances that it will comply with the provisions set forth in 24 CFR §92.207(a).</p> |

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 117            | 4/17/2009<br>HUD                      | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs | Px            | 06/30/09           |

**Division:** Financial Administration

**Section:** Not Selected

Px 06/30/09  
Ix 09/17/09  
Ix 09/17/09

**Issue:** Finding #3 The HOME regulations found at 24 CFR 92.207(a) are very specific that HOME administration funds may only be used for administration of HOME activities. The information provided by TDHCA on March 30, 2009, pertaining to HOME index 00880 notes that \$209,380.61 of HOME administration funds were used to offset FEMA Program shortages. The state was advised that this action was neither appropriate nor acceptable.

Required Corrective Action: TDHCA must immediately cease using HOME funds to pay the shortages of another program to provide HUD with assurances that it has done so. It must review its accounting records for the period January 1, 2005 to current and provide HUD with information listed on report (pg. 27). In addition, TDHCA must calculate the interest that the U.S. Treasury would have earned on the funds from the date the funds were drawn until the date the funds were disbursed for eligible HOME program expenses. The methodology used to calculate the interest, along with a copy of the wire transfer providing evidence of the transfer of interest to HUD must accompany the state's response.

**Status:**

09/17/09 - In reference to the interest calculation on the HOME funds used to offset FEMA expenses that did not include \$209,380.61 of HOME funds that were drawn on September 19 and October 2, 2008, the initial calculation included \$7,018.87 with interest but did not include \$202,361.74.

Attachment A-1 (FEMA) includes \$175,974.79 for FEMA October 2008. The \$7,018.87 on Attachment A-1 (a) identifies the details of FEMA October 2008 activities totaling \$175,974.79.

Attachment A-2 (APS II Benefits) identifies a revised calculation relative to the \$202,361.74 which results in interest of \$1,354.14.

In addition, TDHCA recalculated the interest for FEMA (Attachment A-1) and CDBG 1/11 (Attachment A-3) for periods up to September 7, 2008 which resulted in additional interest of \$73.17.

Attachments A-4 through A-6 includes tables for FEMA, CDBG 1, and CDBG 2 that provides exact dollar amount of HOME funds used to offset shortfalls, the dates funds were disbursed from the local HOME account (shortfalls), the dates the funds were returned to the HOME Program and the dates funds were disbursed for eligible HOME activities. A warrant for the net amount of interest owed of \$1,423.75 is included in this response.

09/17/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.3. The Financial Administration Division responded to this finding in the Department's response to HUD dated September 17, 2009



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u> |
|----------------|---------------------------------------|--|
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06/30/09 - In the aftermath of Hurricane's Katrina and Rita, the Governor designated the Department as the lead agency for housing. One of the primary responsibilities of the Department was to provide immediate aid to those affected.

Weeks later, the Governor declared the situation a Federal Disaster. This declaration granted the Department eligibility to receive emergency funding from the U.S. Department of Housing and Urban Development (HUD) and the Federal Emergency Management Administration (FEMA). To receive these funds, the Department was instructed to begin pre-award activities such as planning, public hearings, development of action plans and coordination with other state/federal/local agencies and organizations. During this time, the Department accumulated expenses associated with the pre-award activities. With no dedicated state funding, the Department began experiencing cash flow shortfalls. As the Department awaited the release of federal disaster funds, it was necessary to pay for staff time with traditional federal program funds.

A review of the records indicates that HOME funds were used to offset shortfalls in various periods. A cash balance worksheet that summarizes the shortages and time periods in which funds were drawn and disbursed is enclosed (Attachment C). The worksheet also includes a methodology used to calculate interest due to the U.S. Treasury. (A warrant for \$6,027.84 is attached.) The Department also provides assurances that it will comply with the provisions set forth in 24 CFR §92.207(a).

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|-----|------------------|--|
| 118 | 4/17/2009<br>HUD | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs |
|-----|------------------|--|

|    | <u>Status</u> | <u>Target Date</u> |
|----|---------------|--------------------|
| Px | 06/30/09      | 8/31/2009          |
| Ix | 08/18/09      |                    |
| Ix | 09/30/09      |                    |

**Division:** Financial Administration

**Section:** Not Selected

**Issue:** Finding #4 The state is not accounting for recaptured funds separately from its program income, as required by 24 CFR 92.503( c ), which requires recaptured funds to be deposited in the participating jurisdiction's HOME Investment Trust Fund local account. Instead, recaptured funds are being accounted for as program income.

Required Corrective Action: The State must provide detailed spreadsheets for the period January 1, 2005 to current that clearly distinguish the amount the state received as recaptured funds from the amount the state received as program income.

**Status:**

- 09/30/09 - This prior audit issue is the result of HUD Monitoring Findings-Affordable Housing HOME Program Audit Finding No.4. The Financial Administration Division responded to this finding in the Department's response to HUD dated August 18, 2009.
- 08/18/09 - (Per HUD response) In our last correspondence dated June 30, 2009 in which we responded to our Audit Report Findings, specifically Finding No.4, we noted that the Department established accounting procedures to adequately separate program income from recaptured funds. At that time, the Department began reconciling activity from January 1, 2005 to current to determine the amount the Department received as recaptured funds from the amount the state received as program income. The results of our reconciliation identified \$2,128,602.77 as our recaptured program income.
- 06/30/09 - The Department recognizes that in accordance with 24 CFR §92.503 (c) recaptured funds must be deposited in the participating jurisdiction's HOME Investment Trust Fund local account. Since the monitoring visit, the Department has established accounting procedures to adequately separate the program income from the recaptured funds in its accounting records. The Department is in the process of reconciling activity from January 1, 2005, to current to determine the amount the Department received as recaptured funds from the amount the state received as program income. The State will submit its reconciliation and documentation no later than August 31, 2009.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 119            | 4/17/2009<br>HUD                      | Affordable Housing and Financial Monitoring and Technical<br>On-site monitoring of the state's affordable housing programs |               |                    |

**Division:** Financial Administration

Ix 06/30/09

**Section:** Not Selected

**Issue:** Finding #5 The information in the state's contract system did not match the information in the general ledger for the time period reviewed. One item in the amount of \$455 was found on the Loan Processing System and not on the general ledger; fifteen items totaling \$71,878.05 were found on the General Ledger System and not on the Loan Processing System.

Required Corrective Action: The state must reconcile the two systems for the period January 1, 2005 to current. Also, the state must establish a process to reconcile the contract system to the general ledger on a periodic basis. The process must include the frequency of the reconciliation and the responsible party and provided to HUD. Also, the state must implement a procedure to provide the Fort Worth Field Office a copy of the wire transfer information regarding funds being returned to its line of credit.

**Status:**

06/30/09 - In accordance with 24 CFR §85.20 (a)(2) the Department has completed a repayment reconciliation from January 1, 2005, to current (Attachment D). A procedure has been established to reconcile the contract system quarterly to the general ledger. This process compares the contract system query to the general ledger query. The reconciliation is managed by the fiscal and program areas. The Department is also implementing a procedure to provide HUD with a copy of the warrant pertaining to the funds being returned to its line of credit.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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            | 06/30/09           |

**Division:** Program Services

**Section:** Not Selected

Px 06/30/09  
Px 09/17/09  
Ix 09/25/09

**Issue:** Finding #6 Questioned and unsupported costs in the amount of \$152,494.67, as well as other discrepancies, were noted. HOME regulations found at 24 CFR 92.508 require the establishment and maintenance of sufficient records.

Required Corrective Action: Within 30 days from the date of this letter, the state must either reimburse the ineligible and unsupported costs, or provide support documentation for the costs that can be supported and reimburse the unsupported costs. Additionally, the state must report on the results of its comparison of the preliminary settlement statements to the final settlement statements for the Luling and Highland Lakes activities and include any unsupported costs in the reimbursement.

**Status:**

- 09/25/09 - A supplemental letter to the second HUD Response letter was sent to HUD on 09/25/2009. The supplemental letter included support documentation for program costs identified in the HUD Monitoring Letter. The documentation is currently under review and staff is awaiting further comments or questions from HUD staff.
- 09/17/09 - This activity has now been closed in IDIS. The HOME contract file #535247 was recently located with the draw documentation for activity #13530, 6th Street Avenue G in Olton, Texas. Unfortunately, documentation for only 6 of the 8 draws can be confirmed. These draws total \$113,080.79 of the total \$149,031.067 drawn. The Department is continuing its efforts to locate the missing documentation for the remaining two draws in archives, which represent an amount of \$35,950.88.
- 06/30/09 - The Department would like to make note of the fact that HOME staff has changed its process to address this issue. Currently, when table funding, the amounts reflected on the preliminary settlement statement is what is used to disburse funds and the final settlement statement is reviewed to determine whether excess funds have been disbursed and if there have been, adjustments are made accordingly on the next draw request.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>  | <u>Status</u> | <u>Target Date</u>  |
|----------------|---------------------------------------|---|---------------|---------------------|
| 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 10/31/2009 |

**Division:** Information Systems

**Section:** Not Selected

Px 09/30/09 10/31/2009  
Px 12/18/09 1/31/2009  
Ix 02/16/10

**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.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>  | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|---|---------------|--------------------|
| 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            | 12/31/2008         |
|                |                                       |   | Ix            | 09/30/09           |

**Division:** Information Systems

**Section:** Not Selected

**Issue:** Observation: Policies have been created to govern network and systems software change management. Individuals have been granted authority to approve, test and deploy their own changes. Access to implement such changes has been limited to very few personnel. However, such changes are not formally reviewed by management to ensure they are consistent with management's intentions.

Recommendation: Changes made to network and operating systems software should be documented. Documentation should evidence testing and approvals of changes made.

**Status:**

09/30/09 - The Information Systems Division added the IS System Changes control to SOP 2264.14 in January 2009.

12/18/08 - In December 2007, management updated SOP 2264.14, "Network Change Procedures," to clarify the levels of authorization that the Director of Information Systems has granted to TDHCA's Network Administrator, Unix Administrator, and Database Administrator and to establish the Unix, Windows, and Cisco Change Log. The Information Systems Division has been in compliance with the updated version of SOP 2264.14 since that time. By December 31, 2008, management will add an additional control to SOP 2264.14 requiring that employees in these positions email a description of the planned change to a new distribution list named "IS System Changes" prior to initiating certain types of network and operating systems software changes identified in the SOP. The Director of Information Systems will be a member of this distribution list. Email sent to this distribution list will also be posted to a public folder to which all division employees will have read access.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>  | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|---|---------------|--------------------|
| 124            | 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           |
|                |                                       |   | Ix            | 10/01/09           |

**Division:** Financial Administration

**Section:** Not Selected

**Issue:** Observation: GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments was also issued and is effective for the Department beginning in fiscal year 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully enefitresponsive, are reported at fair value.

Recommendation: Begin reviewing GASB Statement Nos. 49, 50, 51, 52 and 53 and their implications to determine the potential impact on the TDHCA's financial statements.

**Status:**

- 10/01/09 - Management has reviewed GASB Statements Nos. 49, 50, 51, 52 and 53 and will reflect their impact, if any, in the annual financial statements that will be issued for fiscal year ending August 31, 2009.
- 12/18/08 - Management will proactively review GASB Statement Nos. 49, 50, 51, 52 and 53 for their potential implications for TDHCA's financial statements.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>  | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|---|---------------|--------------------|
| 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 3/31/2009 |
|                |                                       |   | Ix            | 09/30/09           |

**Division:** Information Systems

**Section:** Not Selected

**Issue:** Condition:

- Genesis – Six users have administrative privileges that allow them the ability to have access to application and database administrator roles and to migrate application code changes into production. In addition, two of these six users are developers. The other four users are user account administrators for Genesis.
- CACS – Two developers have application administrative access rights.
- PeopleSoft – One developer/analyst has database administrator privileges, application administrator rights, and access to migrate code changes into production. TDHCA's Director of Information Systems performs a quarterly review of a PeopleSoft report that includes all changes made to the application. However, the developer/analyst has the ability to alter the report with his high-privilege access rights which are assigned so he can migrate changes into production.
- At the network level, one developer has domain administrative privileges.

Cause: In each system, duties are not appropriately segregated between the application administrators, database administrators, and developers. Also specific developers have access to move changes into the production environment of the individual systems.

Criteria: Community Affairs contract systems for monitoring contracts should allow only the appropriately authorized individuals access to update records.

Effect: Users with inappropriate rights to modify applications create a risk of unauthorized changes to the production environment and/or risks of unintentional errors or omissions in processing.

Recommendation: Duties should be segregated between application administrators, system administrators, database administrators, and developers. In addition, developers who have programming responsibilities should not have access to migrate changes to production. In cases where such condition is necessary, management should implement a monitoring control to help ensure that changes implemented to production are appropriate. Privileged access should only be granted to developers in the test environment. If monitoring controls such as report reviews are put in place, developers should not have access to modify the report.

**Status:**

09/30/09 - In April and May 2009, the Information Systems Division completed each change to access described in the Corrective Action Plan section of the March 2009 status update.

| <i>Issue #</i> | <i>Report Date</i><br><i>Auditors</i> | <i>Report Name</i><br><i>Audit Scope</i>   |
|----------------|---------------------------------------|--|
| 03/03/09 -     |                                       | <p>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.</p> <p>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 (CACCS). 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> |



| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 126            | HUD-OIG                               | Texas Disaster Supplemental II - FW 09 0013<br>January 10, 2007, through April 3, 2009 - The universe consisted of the electronic data recei | Nx            | 09/21/09           |

**Division:** Disaster Recovery

**Section:** Not Selected

**Issue:** Condition: Disaster Recovery's action plan did not require homeowner's insurance on properties reconstructed or rehabilitated with Supplemental I funds, and its grants required only 3 years of homeowner's insurance for homes reconstructed or rehabilitated with Supplemental II funds. Of a sample of 59 Supplemental I homes tested, 38 were later damaged by another hurricane or storm. Of the 38 homes, 23 did not have insurance.  
Cause: TDHCA designed its action plan to reconstruct or rehabilitate the maximum number of homes for disaster victims rather than require insurance for the homes for a period equitable to the amount of funds invested and the asset life of the home.  
Criteria: TDHCA's method of allocation used data from the Federal Emergency Management Agency (FEMA), the Texas Department of Insurance, census poverty data, and public input.  
Effect: HUD's CDBG Disaster Recovery funds invested in the homes provided to the disaster victims are at risk of loss.  
Recommendation: We recommend that HUD's Director of Disaster Recovery Assistance & Special Issues Division request TDHCA to modify its action plan to either provide homeowner's insurance for a reasonable period to all newly reconstructed or repaired homes for a period equitable to the amount of funds invested and the life of the asset, or request the homeowner to obtain homeowner's insurance as a prerequisite to obtaining assistance for a period equitable to the amount of funds invested and the life of the asset, or prohibit the homeowner from being able to receive future Disaster Recovery assistance if an insurance policy is not maintained on a newly reconstructed or repaired home, which will result in \$60.2 million in funds to be put to better use.

**Status:**

09/21/09 - TDHCA is not convinced that the State of Texas providing 30 years of insurance to all homeowners whose homes were reconstructed with CDBG disaster recovery funds would be more beneficial than providing homes to as many affected homeowners as possible and requiring them to maintain insurance on their home for the period of the loan or grant. The risk of a major hurricane striking anywhere on the Texas Gulf Coast is approximately 30%. The cost of providing insurance would mean that as many as 50% fewer homeowners could be served. Without sufficient actuarial data and appropriate testing and statistical sampling, TDHCA is unable to make this decision. As a result, TDHCA will follow HUD's program guidance regarding this issue. In the meantime, TDHCA will continue its practice of requiring homeowners to execute an agreement that requires them to maintain insurance, and if the property is damaged, the homeowner may not be eligible for future benefits if they failed to maintain insurance.

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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           |
|                |                                       |  | Ix            | 10/15/09           |

**Division:** Disaster Recovery

**Section:** Not Selected

**Issue:** Chapter 1-A  
The Department should continue to work toward addressing delays that have affected the rate at which Community Development Block Grant hurricane recovery funds have been spent.

**Status:**

- 10/15/09 - The Disaster Recovery Division continues to work proactively with ACS, the COGs, and other parties to streamline program processes where possible to address delays. Since the SAO audit, staff has worked with the contractors and the Board to implement several policy changes or updates to address delays or obstacles to program delivery. The most prominent changes include the implementation of a revised ownership eligibility policy, revised policies to utilize in the event that the required costs to accomplish the approved project exceed allowable program caps for accessibility and/or municipality requirements, changes in the maximum benefit limitation for elevation assistance when such assistance exceeds the established cap, and a revision to our hold harmless agreement regarding notification to lienholders when providing program assistance to an affected property. This has resulted in an increase to 585 homes completed as of November 23, 2009.
- 08/01/09 - Management agrees with the recommendation. However, the streamlining suggested by the SAO must be a coordinated effort among a number of federal, state, and local governmental entities, and significant streamlining may not be possible without changes to federal and state laws governing the Community Development Block Grant program. Disaster response is an urgent need, and where processes can be streamlined or accelerated to bring needed relief more quickly, such improvements will be made. However, they must always be made in a manner that minimizes the risk of fraud, waste, and abuse and provides assurance that these public funds are, in fact, used only to build safe, decent homes for qualified individuals. During the 81st legislative session, the Legislature provided additional guidance to the Department in order to expedite disaster relief even where recipients could not document legal title to their homes. The Department's Governing Board consequently adopted a policy to move forward with providing relief to these individuals. The Department has worked proactively with ACS, the COGs, and other parties to streamline these processes wherever possible and will continue to seek opportunities to address any delays.

Person Responsible: Kelly Crawford

| <u>Issue #</u> | <u>Report Date</u><br><u>Auditors</u> | <u>Report Name</u><br><u>Audit Scope</u>   | <u>Status</u> | <u>Target Date</u> |
|----------------|---------------------------------------|--|---------------|--------------------|
| 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           |
|                |                                       |  | Ix            | 11/09/09           |

**Division:** Information Systems

**Section:** Not Selected

**Issue:** Chapter 1-E

Although the contractor had information technology controls in place for the three information systems tested, auditors identified weaknesses within those controls that should be addressed to ensure compliance with the Texas Administrative Code and the contract between the contractor and the Department. Recommendation: The Department should monitor the information systems of the contractor to ensure compliance with the contractual provisions related to information system controls. Specifically, the Department should:

Ensure that the contractor assigns unique user IDs to each individual who uses its information systems.

Ensure that the contractor removes or disables user IDs for its information systems for terminated employees or employees who are not assigned to the Homeowner Assistance Program or the Sabine Pass Restoration Program.

Ensure that the contractor enables user password expiration and password complexity within the system the contractor uses to manage the application and construction process.

Ensure that the contractor implements controls that compensate for the password weaknesses in the system the contractor uses to process payments to building contractors.

Ensure that the contractor documents, tests, and communicates the key components of its information system change control process.

Ensure that the contractor stores backup data off site.

**Status:**

11/09/09 - The Department's Information Systems Division management and IT security staff have met with ACS to follow up on the status of each recommendation from chapter 1-E of SAO report 09-048. ACS provided the Department with a description of how each recommendation was addressed and with its written IT change control policies. On an ongoing basis, the Department will conduct monitoring visits to review ACS IT security and disaster recovery controls and procedures.

08/01/09 - Management agrees with the recommendation and will work with ACS to ensure that their information technology controls are strengthened. TDHCA's Information Technology staff and Disaster Recovery & Emergency Housing staff will meet with ACS and ensure that the necessary measures are taken and that the recommended controls are implemented.

Person Responsible: Curtis Howe

| <i>Issue #</i> | <i>Report Date</i><br><i>Auditors</i> | <i>Report Name</i><br><i>Audit Scope</i> |
|----------------|---------------------------------------|--|
| 130            |                                       |  |

*Division:*

*Section:*

*Issue:*

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**Internal Audit Division**  
**BOARD ACTION REQUEST**  
**March 10, 2010**

**Action Items**

Discussion of Davis Bacon Requirements.

**Required Action**

None, information item only.

**Background**

The Department of Energy (DOE) has provided more than 5 billion dollars in funding via the American Recovery and Reinvestment Act (ARRA) to expand weatherization assistance programs (WAP) around the country. This funding assists states in achieving the goal of weatherizing homes, lowering energy costs for low-income families, reducing greenhouse gas emissions and creating green jobs.

The State of Texas has an existing WAP allocation of approximately 13 million a year. However, with the passage of ARRA, Texas received an additional approximately 327 million dollars in WAP funds. In an effort to ensure that jobs created are good and good paying jobs, the legislation required that recipients of any ARRA-funded assistance pay laborers and mechanics employed by contractors at least the prevailing wages as determined under the Davis-Bacon Act (DBA) requirements.

The DBA is applicable to contracts on Federal government construction projects in excess of \$2,000. Construction includes alteration and/or repair (including painting and decorating) of public buildings or public works. The DBA requires all contractors and sub-contractors to pay laborers and mechanics employed on a covered contract, wages and fringe benefits as determined and published by the Secretary of Labor to be prevailing for corresponding classes of employees engaged on similar projects in the locality. Any project that is funded or assisted in whole or in part by Recovery funds are subject to DBA prevailing wage requirements.

Sub-recipients and contractors/sub-contractors must attach the applicable wage determination to the bid solicitations, assistance agreements and resulting contracts. In addition, sub-recipients and contractors/sub-contractors are to ensure that all workers under a covered contract are paid on a weekly basis, review the payrolls for compliance and submit the weekly certified payroll records to the contracting and administering agency. The sub-recipients and contractors/sub-contractors are also required to maintain payrolls and basic records relating to payroll during the course of the weatherization work and preserve them for a period of three years.

The Department has established Labor Standards procedures to ensure compliance with labor standards mandates, which include the identification and designation of Labor Standards Officer (LSO) at the sub-recipient level whose primary responsibility will be to oversee and enforce DBA compliance. A pre-construction conference is held focusing on Davis-Bacon compliance and the roles of all parties - LSO, contractors, sub-contractors and Department staff and confirms receipt

and attachment of DOE clause outlining federal labor mandates and that all contractors receive the applicable weatherization prevailing wage determination prior to any weatherization work commencing.

**Recommendation**

No action is required.