

## **Executive Summary**

The Program Services Division's quality assurance activity provides a valuable function for the Department by ensuring that programs are adhering to and processing draws in accordance with state, federal, and program requirements. Program Services performs the quality assurance review of draws requested by contract administrators for the HOME, Housing Trust Fund (HTF), and Neighborhood Stabilization (NSP) Programs. The complexity of draws and the required documentation varies significantly due to the variety of program areas and the program activities performed in each area.

As part of the quality assurance review, Program Services utilizes checklists to ensure that the draw request is supported by the required documentation. The checklists used by Program Services are specific to each program area and activity type. Program Services consistently works with and actively communicates with the program areas during the quality assurance review to make sure that the required supporting documentation is present before funds are paid out. On occasion, Program Services approves a draw if the division director of a program approves an override and requests that the draw be paid. In these instances, Program Services maintains documentation to support the override requests.

### **The Program Services Division**

The Texas Department of Housing and Community Affairs (Department) established the Program Services Division (Program Services) on September 1, 2009. Program Services facilitates adherence, processing, and completion of federal mandates and Departmental requirements affecting a variety of programs administered by the Department. These mandates and requirements include commitments and disbursements of federal funds.

Of the 120 draws we tested, 114 (95.0%) contained the required checklists to ensure that the draw requirements were met. In addition, Program Services formally disapproved 13 (10.9%) draws due to deficiencies in the required supporting documentation. Eleven of these draws were subsequently corrected and approved.

Program Services has processes in place that generally ensure unused activity funds are deobligated during contract or activity close-out in a timely manner. However, there are instances in which Program Services does not close-out activities due to guidance received from the program area. The close-out process will deobligate any unused funds for the activity or contract once completed. The unused funds are then available to be obligated to other households. Program Services does not have a defined period of time in which to process close-outs.

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## **Detailed Results**

### *Chapter 1*

## **Quality Assurance Reviews Help Ensure that Draw Requirements are Met Prior to Payment**

Program Services has processes in place that help to ensure programs are adhering to and processing draws in accordance with state, federal, and program requirements. Program Services performs the quality assurance review of draws requested by contract administrators for the HOME, Housing Trust Fund (HTF), and Neighborhood Stabilization (NSP) Programs. As part of the quality assurance review, Program Services utilizes checklists to ensure that draw requests are supported by the required documentation. The complexity of draws and the required documentation varies significantly due to the variety of program areas and program activities performed in each area. For example, the HOME program's monthly recurring Tenant Based Rental Assistance draws are relatively simple compared to draws for construction or land purchases under the NSP Program. The checklists used by Program Services are specific to each program area and activity type.

Program Services actively communicates with the program areas during the quality assurance review to ensure that the supporting documentation is present. Program Services communicates the need for additional supporting documentation formally or informally to the program divisions. Draws with significant deficiencies are formally disapproved, whereas draws with smaller deficiencies are left in the queue while program divisions are informally notified of needed corrections. On occasion, Program Services approves a draw if the division director of a program approves an override and requests that the draw be paid. In these instances, Program Services maintains documentation to support the override requests.

We tested 120 draws for compliance with the required documentation from the applicable checklist used by Program Services to review the draws. We found only a few minor errors that consisted primarily of missing or incomplete checklists. Of the 120 draws tested, 114 (95.0%) contained all of the documentation required by the checklist. In addition, Program Services formally disapproved 13 draws (10.9%) due to deficiencies in the required supporting documentation. Eleven of these draws were subsequently corrected and approved.

We selected a random statistical sample of 367 draws that were processed during fiscal year 2012 for testing. Of the 367 draws, 287 were from the HOME Program, 49 were from NSP, and 31 were from HTF. These sample sizes represent the percentage of the draw population that originated from these three programs. However, we discontinued testing of the HOME draws after testing of the first 40 draws yielded no significant errors. Therefore, we tested a total of 120 draw transactions that were reviewed by Program Services.

In addition, when a draw is received that does not contain the required supporting documents, Program Services' quality assurance staff works with the various program areas to request and obtain the required

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support. This helps the Department ensure that draw requests are properly supported and processed in accordance with program requirements. The Program Services staff consistently documents their communication with the program areas whenever they have questions related to a draw request.

Chapter 2

## **The Close-Out Process is Generally Performed in a Timely Manner**

Program Services generally ensures that unused activity funds are deobligated during activity close-out in a timely manner. However, there are instances in which Program Services does not close-out activities due to guidance received from the program area. Therefore, it may appear that many of the activities and contracts for this program area are active even though the funds have been expended.

Program Services closes out an activity after the final draw and the Project Completion Report (PCR) has been requested. The close-out process deobligates any unused funds for the activity once completed. The unused funds are then available to be re-obligated to other households. Program Services does not have a defined period of time in which to process close-outs. Close-outs are processed as time allows. However, management agreed that a five business days of the PCR request was a reasonable standard to determine the timeliness of close-outs during audit testing.

Of the 120 draws we tested, 19 (15.8%) were final draws. The 19 final draws were also tested for timeliness of activity and contract close-outs. Of these:

- Three draws (15.8%) were closed within five business days or less,
- Eight draws (42.1%) were closed within six to ten business days
- Two draws (10.5%) were closed more than ten business days after the PCR was requested,
- One draw (5.3%) has not had the PCR requested nor has it been closed out,
- One draw (5.3%) was for administrative costs which do not require a close-out process, and
- Four draws (21.1%) did not have a PCR requested as the program area does not require them. Only one of these draws was closed-out.

## **Appendix A**

### **Objectives**

The objectives of the audit were to determine if the Program Services Division's Quality Assurance function is:

- ensuring that programs are adhering to and processing draws in accordance with federal, state, and program requirements, and.
- is processing close-outs in order to ensure any unused funds are deobligated in a timely manner.

### **Scope**

The scope of this audit was state fiscal year 2012.

### **Methodology**

We conducted interviews of department staff involved in the Quality Assurance process.

We performed background research on the Quality Assurance process.

We tested 120 draws and close-outs for compliance with the quality assurance checklists.

We tested 19 close-outs for timeliness.

### **Criteria**

Quality assurance checklists which identified state, federal, and program requirements for each draw type.

Program Services Quality Assurance Standard Operating Procedures.

Agreed upon criteria as discussed with management.

### **Type of Audit**

This audit was a performance audit of the Program Services Division's Quality Assurance process.

### **Report Distribution**

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

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

### **Project Information**

We conducted audit fieldwork from October 2012 through December 2012. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit

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objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The following staff performed this audit:

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**Appreciation to Staff**

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

## ***Appendix B***

### **Background**

The Texas Department of Housing and Community Affairs (Department) established the Program Services Division on September 1, 2009. The Program Services Division facilitates adherence, processing, and completion of federal mandates and departmental requirements affecting a variety of programs administered by the Department. These mandates and requirements include commitments and disbursements of federal funds.

The Program Services Division has five staff members that perform quality assurance reviews (QA) for the HOME, Housing Trust Fund (HTF), and Neighborhood Stabilization (NSP) Programs. The quality assurance review process is designed to ensure eligible and accurate commitment and expenditure of federal funds. Program Services quality assurance staff perform a final review, evaluation, and approval of information and supporting documentation submitted by the subrecipient contract administrators via the Department's Housing Contract System for all program set-ups committing federal funds and all disbursement requests from program participants in accordance with federal, state, and Department requirements. The quality assurance staff will also assist program area specialists and program participants with Project Completion Reports (PCR Reports) that are used to close-out contract activities.