

# *An Internal Audit of Performance Measures at TDHCA*

## **Executive Summary**

The Texas Department of Housing and Community Affairs (Department) reported reliable results for all five key performance measures tested. A performance measure result is considered reliable if it is certified or certified with qualification.

We selected five of the Department's key measures to test. A key measure is a performance measure that the Legislative Budget Board (LBB) has designated as such and is closely related to the goals identified in the statewide strategic plan.

Two of the key measures we tested were certified with qualification:

- Percent of Households/Individuals Assisted, and
- Number of Households Assisted with Single Family HOME Funds.

The measure "Percent of Households/Individuals Assisted" addresses the extent to which services are provided by all housing programs and calculates the level of services provided compared to the need. The Department's calculation methodology uses the current fiscal year's reported number of assisted households but uses the amount of the prior fiscal year's committed funds to determine the number of households served in each income group. For example, the Department determined the number of households assisted in each income group for fiscal year 2013 based on the funds committed for assistance in fiscal year 2012.

The "Number of Households Assisted with Single Family HOME Funds" is measured by the number of loans funded in the Department's Housing Contract System (HCS). The HOME Division considers an activity funded when the HOME Division and the Department's Program Services Division have approved the activity. However, the HOME Division uses a query to count the number of funded loans based on the status of the Accounting Division's approval of the activity. In addition, the HOME Division does not adjust for activities that were approved but subsequently canceled before assistance was provided to a household.

Three of the key measures we tested were certified:

### **Performance Measures**

Performance measures are defined by the Legislative Budget Board (LBB) and relate to program performance and operational efficiency. They serve several purposes:

- They are monitoring tools to help guide government and make state agencies accountable to the taxpayers.
- They indicate how progress toward agency goals and objectives is measured.
- They are used by decision-makers when allocating resources and determining appropriation levels.
- They are intended to help focus an agency's efforts on achieving priority goals and objectives.

All state agencies must submit their performance measure data to the LBB. Different classifications of measures have different submission requirements. For example, output and efficiency measures must be submitted quarterly and outcome and explanatory measures must be submitted annually.

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- Number of Persons Assisted through Homeless and Poverty-related Funds,
- Total Number of Reviews of Local Administrators, and
- Number of Households Assisted with Multifamily HOME Funds.

Though the first two measures above contained minor errors in one quarter, the impact on each measure was less than 5 percent of the total reported. These minor errors do not appear to be caused by inadequate controls over data collection, calculation, or reporting. The third certified measure above contained no errors.

No issues were found in the internal controls over the performance measure process. Controls over the performance measure reporting process include: performance measure data reviews by division performance measure liaisons and division directors, comparison of data entered into the Automated Budget and Evaluation System of Texas (ABEST) with the Department's own performance measures database, and draft report review and comments by executive management before final submission to the Legislative Budget Board.

The Department's standard operating procedures for performance measure reporting only exist in draft form. The State Auditor's Office in their *Guide to Performance Measure Management* indicate that an agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures.

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## Detailed Results

### Chapter 1

## The Percent of Households/Individuals Assisted is not Based on the Funds Used to Assist Those Households

Although the Department's key outcome performance measure "Percent of Households/Individuals Assisted" reported reliable results, it was certified with qualification because it was not calculated using the correct methodology.

According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified with qualification when the agency's calculation of performance deviates from the measure definition but the deviation caused less than a 5 percent difference between the number reported to the Automated Budget and Evaluation System of Texas (ABEST) and the correct performance measure results. A measure's results are considered reliable if the measure is certified or certified with qualification.

This key outcome measure addresses the extent to which services are provided by all housing programs and calculates the level of service provided compared to the need. The housing programs included in this measure are: the Housing Trust Fund, HOME, Section 8, Housing Tax Credit, Single Family Bond, and Multifamily Bond programs.

The Department's methodology calculates the number of households assisted for each income group – very low, low, and moderate income – based on the amount of funds committed to assist each group for the year. However, the calculation methodology uses the current fiscal year's reported number of assisted households but uses the amount of the prior fiscal year's committed funds. For example, for fiscal year 2013, the Department's calculation for this measure used the year-end total number of assisted households reported by each housing program's respective fiscal year 2013 performance measures, and the amount of committed funds reported in the fiscal year 2013 State of Texas Low Income Housing Plan and Annual Report (SLIHP). However, the committed funds reported in the fiscal year 2013 SLIHP are the amounts actually committed in fiscal year 2012.

In addition, the Department's other outcome measures for each income group (very low, low, and moderate income) use the same methodology. These individual income group measures were not included in the audit testing. However, using the prior year's funds to determine the amount of assistance provided to the current year's households may result in the Department reporting skewed numbers for these measures as well.

### Recommendation

The Department should calculate the "Percent of Households/Individuals Assisted" using a methodology that includes current income data.

**Management's Response**

Management agrees with the recommendation and will make the necessary changes to ensure that the fiscal year used for income category distributions are consistent with the fiscal year used for the total unit/individual data. This adjustment will be applied not only to the measure "Percent of Households/Individuals Assisted" but for any other identified outcome measures using this methodology for income stratification. David Johnson will make the necessary changes to the methodology. Methodological changes will occur by July 1, 2014. Because the LBB's schedule for reporting this measure is only annually the evidence of these changes will not be seen until September of 2014.

These changes will not require a change to the LBB-approved definition of the measure but does require notification to the LBB as the methodological changes will affect the figure reported each State Fiscal Year.

Responsible person: David Johnson

Date: July 1, 2014

Chapter 2

## Calculation of the Single Family HOME Measure Is Not Based on Consistent Criteria

The Department's key output measure "Number of Households Assisted with Single Family HOME Funds" was certified with qualification. According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified with qualification when the agency's calculation of performance deviates from the measure definition but the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

This single family HOME key measure tracks the number of households assisted with single family HOME funds. The number of households is measured by the number of loans funded in the Department's Housing Contract System.

The measure's definition does not specify when a loan is considered funded. The HOME Division considers a loan funded when the HOME Division and the Department's Program Services Division have both approved the activity. The remaining approval in the Housing Contract System is made by the Accounting Division which is not responsible for determining program eligibility or reviewing program applications.

However, the HOME Division uses a query to count the number of funded loans based on the Accounting Approval status, not the HOME Division and Program Services Division approval status. In addition, the HOME Division does not factor into the performance measure data any activities that were approved but subsequently canceled before assistance was provided to a household.

We recalculated the number of funded loans using the HOME Division and Program Services Division approval date and subtracted any canceled activities. We compared the recalculated results to the actual performance reported in ABEST for the first and second quarters of fiscal year 2014. The 251 activities reported in the first quarter of fiscal year 2014 were overstated by 3 (1.2%) and the 135 activities reported in the second quarter were understated by 4 (3.0%).

### **Recommendation**

The Department should follow the performance measure's definition when counting the "Number of Households Assisted with Single Family HOME Funds."

### **Management's Response**

Management agrees with the recommendation and has already implemented the necessary changes. The referenced query now appropriately uses the Program Services approval date instead of the Accounting approval date to properly consider a loan funded. Staff will also re-query previous quarters within the State Fiscal Year to ensure that any loans cancelled or terminated are accounted for by adjusting the previously reported figures.

*Chapter 3*

## Three Key Measures Were Certified

Three of the five key measures we tested reported reliable results and were certified:

- Number of Persons Assisted through Homeless and Poverty-related Funds,
- Total Number of Reviews of Local Administrators, and
- Number of Households Assisted with Multifamily HOME Funds.

According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified if reported performance is accurate within 5 percent and if it appears that there are controls in place to ensure accuracy over collecting and reporting the performance data. A measure's results are considered reliable if the measure is either certified or certified with qualification.

Though two of the three measures above contained minor errors in one quarter, the impact on each measure was less than 5 percent of the total reported. In addition, these minor errors did not appear to be caused by inadequate controls over data collection, calculation, or reporting.

The "Number of Persons Assisted through Homeless and Poverty-related Funds" is calculated as the sum of persons assisted through the Community Services Block Grant ("CSBG"), Emergency Solutions Grant ("ESG") and Homeless and Housing Services Program ("HHSP") as reported in contract administrators' monthly performance reports. We selected a sample of contracts that covered 189,486 (69.5%) of the 272,591 persons reportedly assisted by homeless and poverty-related funds in the first two quarters of fiscal year 2014. We verified that the number of persons reported monthly by the contract administrators accurately matched the number of persons reported by the Department.

The "Total Number of Reviews of Local Administrators" is the number of monitoring reviews conducted as part of contract monitoring in the Compliance Division. This measure counts the actual number of local administrators reviewed, even though an administrator may administer more than one contract. We tested 15 (15.8%) of the 95 reviews reported as of the end of the second quarter of fiscal year 2014. We reviewed monitoring reports and the sign-off dates of the monitoring procedures to verify when the monitoring took place.

The Department's key output measure "Number of Households Assisted with Multifamily HOME Funds" was certified. This measure tracks the number of households assisted with multifamily HOME funds. It is calculated as the sum of all restricted units awarded HOME funds for rental development. We tested four multifamily projects that accounted for 73 (44.8%) of the 163 total HOME units reported through the end of the second quarter of fiscal year 2014. Every project tested had supporting documentation and board approved funding commitments for the same number of HOME units as reported in ABEST. In addition, the projects were reported in ABEST for the same quarter in which they received board approval.

*Chapter 4*

## **The Department's Procedures for Performance Measure Reporting are not Finalized**

The Department's standard operating procedures for performance measure reporting only exist in draft form. The State Auditor's Office in their *Guide to Performance Measure Management* asserts that an agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures.

Management indicated that finalizing these policies and procedures was postponed to allow time for the staff currently responsible for reporting performance measures to go through the entire performance measure process and incorporate future automated processes into the final versions. Written policies and procedures can help the Department ensure consistency when collecting, reviewing, and reporting performance measures to the Legislative Budget Board.

### **Recommendation**

The Department should finalize its draft policies and procedures for performance measure reporting.

### **Management's Response**

Management agrees with the recommendation. The SOP was finalized on July 1, 2014.



## ***Appendix A***

### **Objectives**

The objectives of the audit were to determine if the Department:

- is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST), and
- has adequate control systems in place over the collection, calculation, and reporting of its performance measures.

### **Scope**

The scope of this audit was five key performance measures reported to the Legislative Budget Board by the Department for fiscal year 2013 through the end of the second quarter of fiscal year 2014, depending on whether the measure was reported annually or quarterly. The five performance measures evaluated were:

- Percent of Households/Individuals Assisted,
- Number of Households Assisted with Single Family HOME Funds,
- Number of Households Assisted with Multifamily HOME Funds,
- Number of Persons Assisted Through Homeless and Poverty-Related Funds, and
- Total Number of Reviews of Local Administrators.

### **Methodology**

We audited the reported results of the selected measures for accuracy and for compliance with the performance measure definitions. This included recalculating each measure using the original data. We also evaluated the Department's internal controls over the tracking, compilation, calculation, and reporting of these measures.

In addition, we assessed the reliability of the data obtained from the Department's information systems and used to track and compile the results of these measures. This included examining the queries used to extract the data from the Department's automated systems and examining the formulas in the spreadsheets used to track the data. We compared hard copy files to the electronic data in the applicable systems. We relied on previous internal and external audit results for the application controls of the systems housing the applicable data. The systems or software housing performance measure data include the Housing Contract System, Community Affairs Contract System, MITAS (used for tracking Bootstrap loan data), HAPPY (used for Section 8 data) and E-Housing (used for the single family bond program.)

Specifically, we collected and reviewed the following information:

- Performance measure data in spreadsheets and applicable software systems.

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- Reports and queries generated from the applicable software systems.
- The Department's internal policies and procedures over performance measure reporting.
- The Department's performance measure results as reported in ABEST.

We conducted the following procedures and tests:

- Conducted interviews of staff regarding the processes used to collect data, calculate results and report on the selected performance measures.
- Reviewed prior internal and external audit reports regarding the applicable information systems.
- Evaluated the methodology for calculating the results of the selected performance measures and compared these methodologies to the Legislative Budget Board's ABEST definitions for each measure.
- Reviewed the queries used to obtain the automated data and the spreadsheet formulas used to track and calculate the data maintained in Microsoft EXCEL.
- Evaluated the results of the selected performance measures and assigned them to the following categories based on the criteria in the State Auditor's Office's *Guide to Performance Measure Management*: certified, certified with qualification, inaccurate and factors prevent certification. As required, a measure was considered reliable if it was certified or certified with qualification.

### **Criteria**

The following documents were used as criteria:

- Performance Measure Definitions in ABEST including the definition, data source, methodology, and purpose.
- *Guide to Performance Measure Management* (State Auditor's Office Report #12-333, March 2012.)
- The Department's policies and procedures for performance measures reporting.

### **Type of Audit**

This audit was a performance audit of the Department's performance management system.

### **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

*Texas Department of Housing and Community Affairs – Internal Audit Division*  
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*Report #14-1064*

- State Auditor's Office
- Sunset Advisory Commission

### **Project Information**

We conducted audit fieldwork from May 2014 through June 2014. 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 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:

- Derrick Miller

### **Appreciation to Staff**

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