

AUDIT COMMITTEE MEETING OF
JULY 29, 2003

Vidal Gonzalez, Chair
Beth Anderson, Member
Shadrick Bogany, Member

MISSION

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

***TO HELP TEXANS ACHIEVE AN IMPROVED QUALITY
OF LIFE THROUGH THE DEVELOPMENT OF BETTER
COMMUNITIES***

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

July 29, 2003

ROLL CALL

| | Present | Absent |
|----------------------------|---------|--------|
| Gonzalez, Vidal, Chair | _____ | _____ |
| Anderson, Beth, Member | _____ | _____ |
| Number Present | _____ | |
| Number Absent | | _____ |
| Signed: _____, Board Chair | | |

AUDIT COMMITTEE MEETING
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
507 Sabine, Room 437, Austin, Texas 78701
July 29, 2003 12:30 pm

A G E N D A

**CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM**

Vidal Gonzalez, Chair

PUBLIC COMMENT

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Committee.

ACTION ITEMS

Item 1 Presentation, discussion and possible approval of Minutes of Audit Committee Meeting of May15, 2003

Vidal Gonzalez

REPORT ITEMS

Item 2 Presentation and discussion of:

- a) HOME Program:
 - 1) Prior Audit Issues Including Texas State Affordable Housing Corporation (TSAHC) Related Issues David Gaines
David Long
- b) 2002 Annual Review of TDHCA Performance of Duties Based on Memorandum of Understanding with the Resolution Trust Corporation David Gaines
- c) State Energy Conservation Office – On-Site Program Monitoring Report Relating to the Department’s Administration of SECO Contract David Gaines
Brooke Boston
- d) Section 8 Program:
Rental Integrity Monitoring Review Scheduled for July 28-August 1, 2003 David Gaines
- e) State Auditor’s Report (SAO), *Selected Assistance Programs at the Texas Department of Housing and Community Affairs* David Gaines
Rachel Cohen, SAO
- f) Analysis of SAO Audit Conditions Noted and Department’s Associated Controls/Procedures and Actions Taken/Planned Eddie Fariss
Program Management
- g) Historical Performance of Subrecipients Reviewed in Connection with SAO Audit: Eddie Fariss
Program Management
 - 1) Greater East Texas Community Action Program – Management’s Analysis and Evaluation of Performance
 - a) Programmatic Summary of Work Completed
 - b) Results of Prior Three Years’ Monitoring Visits
 - c) Results of Prior Three Years’ Single Audit Reports
 - 2) Tom Green County Community Action Council – Management’s Analysis and Evaluation of Performance
 - a) Programmatic Summary of Work Completed

- b) Results of Prior Three Years' Monitoring Visits
 - c) Results of Prior Three Years' Single Audit Reports
 - 3) City of Fort Worth – Management's Analysis and Evaluation of Performance
 - a) Programmatic Summary of Work Completed
 - b) Results of Prior Three Years' Monitoring Visits
 - c) Results of Prior Three Years' Single Audit Reports
- h) State Auditor's Office – *A Special Investigation Unit Report Regarding Tom Green Community Action Council* David Gaines
- i) Energy Assistance Programs:
 - 1) Summary Report of Prior Audit Issues Since FYE 8/31/99 David Gaines
 - 2) Results of Funding Source Monitoring Reviews Since September 1997 David Gaines
 - 3) Program Monitoring Eddie Fariss/Peggy Colvin
- j) Section 8 Program:
 - 1) Summary Report of Prior Single Audit Issues Since FYE 8/31/99 David Gaines
 - 2) Status of Prior Section 8 Noncompliance Issues Identified in 2000 (by HUD and External Auditor) David Gaines
 - 3) Program Monitoring Eddie Fariss/Willie F. Hurd
- k) Graduated Sanctions Available to Community Affairs Division for Addressing Poor Performance Program Subrecipients Leading up to And Including Termination Eddie Fariss
- l) Graduated Sanctions Applied Against Community Affairs Division's Subrecipients Since September 1, 1998 Eddie Fariss

EXECUTIVE SESSION

Personnel Matters under Section 551.074, Texas Government Code
 If permitted by Law, the Committee may discuss any item listed on the agenda in Executive Session

Vidal Gonzalez

OPEN SESSION

Action in Open Session on Items Discussed in Executive Session

Vidal Gonzalez

ADJOURN

Vidal Gonzalez

Individuals who require auxiliary aids or services for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3100 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.

AUDIT COMMITTEE MEETING
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
507 Sabine Street, Room 437, Austin, Texas 78701
May, 15, 2003 11:00 a.m.

Summary of Minutes

CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of May 15, 2003 was called to order by Chair Vidal Gonzalez at 11:10 a.m. It was held at the Texas Department of Housing and Community Affairs Boardroom, Austin, Texas. Roll call certified a quorum was present. Shad Bogany was absent.

Members present:

Vidal Gonzalez -- Chair

Elizabeth Anderson - Member

Staff of the Texas Department of Housing and Community Affairs was also present.

PUBLIC COMMENT

The Committee will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by the department staff and motions made by the Committee.

Mr. Gonzalez called for public comment and no one wished to give comments at this time but would comment at the presentation of the agenda items.

REPORT ITEMS

(1) Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of March 13, 2003

Motion made by Beth Anderson and seconded by Vidal Gonzalez to approve the minutes of the Audit Committee Meeting of March 13, 2003.

Passed Unanimously

Mr. Gonzalez noted that this is Internal Audit Week and congratulated Mr. Gaines as the TDHCA Auditor.

(3) Presentation and Discussion of Reports:

a) Status of Prior Audit Issues

Mr. David Gaines, Director of Internal Auditing, stated there were fourteen issues on this report and five of those are implemented; two are considered implemented but have been classified as action delayed pending clearance by HUD. The remaining seven are continued to be worked on. One relating to the department establishing an agency-wide construction inspection section, evaluating the benefits of contracting with third parties and evaluating the degree of overlap by the inspectors such as first-lien inspections and it has been implemented. The other four issues being reported as implemented are recent audits completed by the External Auditors, including the State Auditors Office, KPMG, Deloitte and Touche.

Issue No. 187 relates to the department establishing a family self-sufficiency plan for the Section 8 program. This issue is classified as in progress, as there is a new consideration of the Community Action Agencies providing some of these services. The department is waiting for a response from HUD and considering the possibility of the CAAs doing this for TDHCA. There were six issues

which are the HOME Program issues relating to the HUD HOME monitoring visit of November 2001. TDHCA and HUD have come to a general agreement on how the department needs to proceed in resolving these issues. HUD has agreed that the department would send homeowners a simplified housing standards checklist. These checklists were approved by HUD and they have been sent out and are now due back to the department. Management is in the process of evaluating the results of these surveys. TDHCA will conduct inspections that are needed. This should be completed by the end of May. Corrective actions to bring the houses into compliance with standards will be developed. Once the inspections come in, management will establish an action plan and target dates for completion for those. The department has agreed to conduct inspections on 27 properties funded through HOME, Inc. a third party lender of TSAHC and another eleven properties relating from the Contract for Deed Program that was administered through TSAHC.

There were several more issues that are considered resolved. These related to correcting the information in the HUD information system and correcting the land use restriction agreements. The final issue relates to the department taking action on the all new multifamily projects funded through TSHAC to determine compliance with the Model Energy Code. Management is documenting compliance on 154 of 269 properties and has informed HUD that it believes that this demonstrates substantial compliance. The department has informed HUD of its procedures to ensure compliance and hopes these actions will be sufficient to satisfy HUD and that HUD will be in agreement.

b) Status of Central Database Project

Mr. Gaines stated the work in progress on this project is focused on the Compliance Monitoring and Tracking System and the Fund Allocation Contract Module. The Compliance Monitoring and Tracking System was fully developed in January. The functional planning and deployment portion, except for the tax credit's historical data gathering input is now reported as complete. The tax credit data gathering reports complete for the functionality relating to the Multifamily Affordable housing Disposition Program, HOME, Housing Trust Fund and tax exempt programs during the affordability period.

With this system now in operation, the bugs and enhancements are continuing to be identified. On the tax credit gathering data, this original estimate for completion was October 1, 2003. Since 28 individuals from throughout the department have volunteered with this data entry project, the data entry should be done by July 10th instead of October 1. This speaks highly of staff and management for willing to give that extra effort for the common goals and goods of the department as a whole. There are a number of files that are missing and documents are also missing from within the files. The biggest challenge is the development of thorough user acceptance tests. These reports are important to ensure that the system is operating as intended before it moves into production and then the technical team needs time to fix the problems and then have the users to again test for problems.

Ms. Anderson stated she would like to do something for the people working on this data entry for the database project and would like to have this event in the July board meeting.

ADJOURN

Motion made by Beth Anderson and seconded by Vidal Gonzalez to adjourn the meeting.
Passed Unanimously

The meeting adjourned at 11:45 a.m.

Respectfully submitted,

Board Secretary

p:dg/audmimay

Audit Committee

Texas Department of Housing and Community Affairs

Overview of Materials Presented and Planned Use by the Department Tuesday, July 29, 2003

The accompanying information supporting Agenda Report Item's 2 e) through 2 l) have been assembled in response to the results of a recent audit conducted by the State Auditor's Office (SAO), *Selected Assistance Program at the Texas Department of Housing and Community Affairs*; report released June 2003.

While the Department has implemented several of the SAO recommendations and is in the process of implementing the remainder, as discussed further in the accompanying materials, these materials were compiled in an attempt to fully disclose the status of the Department's monitoring processes and controls relating to its Energy Assistance and Section 8 programs, which were the focus of significant issues presented in the SAO report.

These materials are being presented to the Department's Audit Committee and Governing Board for reference purposes and to provide assurance to the Board and others that the Department takes the SAO report and its monitoring responsibilities very seriously. The materials also provide a basis for management to thoroughly assess the current state of the programs' monitoring functions.

These materials, with similar materials to be developed by other programs that the Department delivers, are being and will be used to identify vulnerabilities to the Department and as a basis for identifying opportunities to improve its operations. While the materials are very extensive, the level of detail is necessary to develop a detailed understanding of current processes and controls and to identify areas where processes and controls may be lacking so appropriate corrective action can be taken.

The Department welcomes this opportunity to thoroughly assess its monitoring function. To ensure the integrity of the information being provided and accumulated from the Department's programs and to assist management's efforts to improve its operations, management has requested the Internal Audit Division to begin a related project. The purpose of the project is to complement the SAO's audit by conducting further work in these and other Department programs and to identify control weaknesses and opportunities for further improvement.

Management believes that this coordination among Department staff and the Internal Audit Division, with the support of the Board, will result in improved program delivery and monitoring systems for the State of Texas.

Texas Department of Housing and Community Affairs

*Home Program – Prior Audit Issues,
Including Texas State Affordable Housing Corporation Related Issues*

- *HUD Letter to the Department Dated June 20,2003*
 - *Department Response Dated July 15, 2003*



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
801 Cherry Street
PO Box 2905
Fort Worth, TX 76113-2905
www.hud.gov



JUN 20 2003

Ms. Edwina P. Carrington
Executive Director
Texas Department of Housing and
Community Affairs
PO Box 13941
Austin, TX 78711-3941

Dear Ms. Carrington:

SUBJECT: State's Response to HUD's HOME Program Monitoring Letter

This is in response to the State's letter of April 22, 2003, regarding the monitoring findings noted in HUD's monitoring report dated November 16, 2001 and the follow-up letter dated February 27, 2003. We have completed our review of the state's submission and the following are HUD's comments.

FINDING NO. 1A: The state is not providing adequate monitoring and oversight of the processing and construction activities of its recipients, subrecipients, CHDOs, contractors, and/or developers in accordance with the HOME regulations and applicable Office of Management and Budget (OMB) circulars, to ensure that they are performing as required in the state's various affordable housing programs.

TDHCA's Response to FINDING NO. 1A: The state responded that it has implemented a new process that requires an initial inspection report and work write-up document to be submitted prior to project set-up. These documents are completed by qualified housing inspectors in the field. The state will use either in-house or other qualified construction inspectors should the contract administrator request assistance or when inaccurate or incomplete documentation is submitted or the contractor is considered to be high-risk. Ongoing technical assistance will be provided by state staff during the course of the construction. Prior to the disbursement of the final construction draw by the state, all required documentation, including lien waivers and homeowner acceptance/verification forms will have to be submitted for the state's review and approval. When new construction has been undertaken, the documentation will include REScheck (previously MECcheck) to assure compliance with the HOME program energy conservation requirements. The state also provided that it has developed a risk-based approach to identify contracts that may require more in-depth monitoring or onsite monitoring visits.

HUD's Response to Finding 1A: The state's response to this portion of this finding is incomplete. HUD acknowledges that the state is now proceeding to implement processes and procedures based on HUD's monitoring guidelines to begin addressing its overall management and oversight of its recipients, subrecipients, CHDOs, contractors and developers.

The corrective action required by HUD for this finding stated that: "The state must develop and submit for HUD approval, processes and procedures used to monitor and oversee recipients, subrecipients, including subrecipient contracts with lower-tier organizations. The process must include a commitment to provide sufficient construction monitoring of housing sites by qualified persons to ensure that beneficiaries are receiving the program benefits for which the public funds are being provided."

The state's response indicates that it has processes and procedures in place to monitor recipients and subrecipients, and that initial inspection and work write-up reports must now be submitted prior to project set-up. However, no new or revised information has been provided to this office for our review and approval.

This portion of this finding remains open. Please provide this office with an update as to the status of this portion of the finding by July 15, 2003.

We understand that the state will be contracting with one of our technical assistance providers, ICF, to develop a revised policies and procedures manual. Additionally, HUD has approved a Technical Plan of Assistance (TPA) with ICF to provide direct onsite technical assistance and training in several areas including the monitoring requirements of the HOME program.

FINDING NO. 1B: The state's Homebuyer Assistance (HBA), Owner-Occupied Housing Assistance (OCC) and Contract for Deed Conversion (CFD) programs are not in compliance with HOME regulations. There is insufficient or no documentation in the files that the properties assisted with these program activities are in compliance with the state's housing rehabilitation (property) standards and code requirements and, as applicable, local code requirements.

TDHCA's Response to FINDING NO. 1B: The state is in the process of verifying that 1,112 HOME-assisted project sites previously identified by HUD met federal, state and local housing rehabilitation (property) standards and code requirements. Since the date of its response the state advised us that it has mailed the HUD-approved surveys to all applicable participants. Responses to these surveys are being returned and the state is in the process of reviewing the information provided.

HUD's Response to Finding 1B: As stated on page 3 of the February 27th letter, "To ensure that in the future all assisted housing units will meet the required standards at activity completion, the state must develop and submit for HUD approval processes and procedures for carrying out inspection and construction activities. This must include at least the following actions to be done and fully documented by qualified persons:

1. Conduct an initial inspection of each unit to determine if it meets the standards, from which a work write-up can be prepared if necessary; and, if applicable,
2. Follow the procurement requirements to hire a competent contractor to complete the work in a reasonable period of time;
3. Use qualified inspectors to make sufficient on-site inspections during construction (at least during work on all major/critical systems) to ensure that the work is done as required in a high-quality manner and payments are justified;
4. Conduct a final inspection and certify that the work was completed as required and the unit is in compliance with the standards (which must be done before the final payment).

All documents must be signed and dated by the responsible persons.”

The state’s response does not address items (1) through (4). While HUD understands that it may not be feasible for state staff to be in the field to oversee the activities being carried out by all of its entities on a regular basis, the state must develop the requirements, policies and procedures that must be followed by all entities that receive an allocation of state HOME funds. Among other requirements, these processes and procedures must specifically address the issue of regular inspection and oversight requirements regarding the construction activities by all such entities, including how they will assure that the completed work will be of high quality workmanship.

This portion of this finding remains open. Please provide an update of the status of this portion of this finding by July 15, 2003.

FINDING NO. 2: (A) The Texas State Affordable Housing Corporation’s (TSAHC) third party lender, HOME, Inc., failed to properly disburse HOME and Federal Housing Administration (FHA) Title 1 Home Improvement Loan funds. Specifically, a contractor received payment for uncompleted work. This may have resulted in homeowners accessing additional funding sources to complete the work, thus paying twice for the same work. A total of 27 households were identified as receiving assistance from HOME, Inc. (B) The state has not indicated whether the assistance provided brought the assisted houses up to required construction standards.

TDHCA’s Response to FINDING NO. 2: The state has agreed to ensure that onsite inspections will occur at 27 housing sites identified by HUD. This will be accomplished by utilizing state staff that have been trained in, and have experience with, Housing Quality Standards (HQS) and Texas Minimum Construction Standards (TMCS). It is anticipated that the inspections will be complete no later than the end of May 2003. The state will document that reasonable attempts are made to obtain access to inspect a particular housing site. The state will notify HUD once the inspections are complete and any necessary corrective actions have been taken.

Because HOME funds were used only to provide for an interest buy-down, the state cannot pursue legal action against a contractor that was not a party to the contract between the state and TSAHC or HOME, Inc. The state has agreed to ensure that assisted housing sites meet required property standards, that corrective actions are made, and that the homeowner will not be held financially liable for any additional work.

HUD's Response to Finding 2: Clarification is needed regarding the actual number of units applicable to this finding. The state reported that 33 HOME, Inc., projects were set up and five (5) project sites were cancelled in IDIS; therefore, a total of 28 loans (not 27 as previously reported) must be accounted for.

Although the state may not be able to pursue legal actions against the contractors who completed the rehabilitation work, these units must meet all applicable property standards or the amount of the HOME subsidies provided to the recipients must be repaid from nonfederal funds.

This finding remains open. Please provide an update as to the status of this finding by July 15, 2003.

Because it is not possible for the state to follow up with any legal actions against the contractors, please include with the updated status report a list of those properties that require additional work, including the names and addresses of the recipients of assistance under the HOME, Inc. contract, the amount of the FHA Title 1 Home Improvement Loan, and the names and addresses of each contractor that completed the construction work for each property.

FINDING NO. 3: Data was entered in IDIS incompletely or inaccurately.

TDHCA's Response to FINDING NO. 3: As of the date of the state's letter, April 23, 2003, the state advised that it had completed over 2,000 IDIS corrections. The state contends that all major corrections have been completed and that the finding should be cleared. However, it also acknowledges that there will continue to be minor errors for both past and future data entries that will be corrected as they are identified.

HUD's Response to Finding 3: Based on the information provided by the state, this finding is cleared on the basis of the state's assurance that corrective actions will continue to be taken as other errors or deficiencies are found.

In addition to the corrective action noted above, state staff also advised that it is continuing to identify and reconcile old open HOME contracts so that they can be closed out. This will result in approximately \$20 million in HOME funds becoming available to recommit to existing or new state recipients, subrecipients, and CHDOs. The state is reminded that as it continues its process to close old HOME contracts, the funds released by these closures need to be committed as quickly as possible so that their availability does not have a negative impact on the state's 24-month commitment deadline. This commitment analysis will be completed by HUD for the state's fiscal year 2002 allocation in March 2004. To the extent feasible, these old funds need to be committed prior to allocating newer funds to your state recipients, subrecipients and CHDOs.

FINDING NO. 4: The Contract for Deed program (CFD) activities implemented by TSAHC were not in compliance with HOME program requirements. Specifically, 14 properties were identified by HUD. Of the 14 properties, 3 were vacant lots where construction of a housing unit

did not commence within 12 months of the purchase of the land. The state previously reimbursed HUD for the three vacant properties and agreed to repay funds for the additional 11 properties, as well as forgive the homeowner's debt to the state. However, the state did not indicate whether the assistance provided brought the houses up to applicable Colonia construction standards.

TDHCA's Response to FINDING NO. 4: The state agreed to ensure that onsite inspections will occur at 11 housing sites identified by HUD. This will be accomplished by utilizing state staff that have been trained in, and have experience with, Housing Quality Standards (HQS) and Texas Minimum Construction Standards (TMCS). It is anticipated that the inspections will be complete no later than the end of May 2003. The state will document that reasonable attempts are made to obtain access to inspect a particular housing site. The state will notify HUD once the inspections are complete and any necessary corrective actions have been taken.

HUD's Response to Finding 4: This finding will remain open at this time. Please advise this office with an update as to the status of this finding by July 15, 2003.

FINDING NO. 5: This finding was previously cleared.

FINDING NO. 6: The Land Use Restriction Agreement (LURA) executed between TSAHC and 83-WESTGATE, LTD contains a prohibited clause in the last paragraph of Article II, Use and Occupancy of the Property.

TDHCA's Response to FINDING NO. 6: The state's master copy of the HOME LURA is available on the state's web site under *Featured Documents, Real Estate Loan Documents*, and does not contain the prohibited clause. The LURA executed between TSAHC and 83-WESTGATE, LTD that contained the prohibited clause, as well as three other LURA's that contained the same language, have been amended and executed copies have been provided to the state.

HUD's Response to Finding 6: Based on the information provided by the state, this finding is cleared.

FINDING NO. 7: This finding was previously cleared.

FINDING NO. 8: (A) There was no documentation that newly constructed units (single family and multifamily) are in compliance with the current edition of the Model Energy Code (MEC) published by the Council of American Building Officials. Specifically, this involves 269 newly constructed housing units, 62 of which have already been documented as in compliance.

(B) The Keystone apartment complex in Weslaco is not in compliance with Section 504 (handicapped accessibility) relative to units that are accessible for persons with visual and/or hearing impairments.

TDHCA's Response to FINDING NO. 8A: The state previously identified 269 newly constructed units and provided documentation that 62 of the units demonstrated compliance with

Model Energy Code (MEC) requirements. The state recently obtained documentation through TSAHC that an additional 92 units have also been documented as in compliance, for a total of 154. Each of the MEC affidavits obtained indicated that the buildings were in compliance at the time of construction completion. Regarding the additional 115 units, TSAHC has indicated that they have been unable to obtain MEC affidavits, although numerous attempts have been made and continue to be made. The state believes that substantial compliance has been achieved given that the units identified that have responded were all in compliance with MEC.

The state is in the process of implementing a new central database system of records that will readily identify whether an assisted property is new construction or a rehabilitated property. This will enable the state to determine if compliance with MEC is required. In the future, when a building is identified as new construction, the state will require that a REScheck be submitted during the draw process.

HUD's Response to Finding 8A: HUD acknowledges the efforts made to obtain the documentation required to assure compliance with MEC. However, compliance with energy efficiency standards is statutory and cannot be waived (see Section 215(a)(1)(F) of the National Affordable Housing Act). The state and, as appropriate, TSAHC need to continue their efforts to obtain this documentation for the remaining 115 newly constructed rental units. If a copy of the blueprints or the plans and specifications can be made available, the numbers could now be entered into the MECcheck or REScheck programs to determine if the units were in compliance. The subsidies provided for any units for which compliance cannot be determined must be repaid to the state's local HOME account from nonfederal funds.

This portion of the finding remains open at this time. Please advise this office with an update as to the status of this portion of the finding by July 15, 2003.

TDHCA's Response to FINDING NO. 8B: On April 17, 2003, the state sent correspondence to TSAHC to address the issue of noncompliance with Section 504 requirements in the Keystone apartment complex in Weslaco, Texas. No later than May 12, 2003, the owner must provide a recommended plan of action to TSAHC and TDHCA including a proposal to comply with Section 504 requirements. The proposal will include preliminary work write-ups and a plan to commence construction no later than June 1, 2003. The state will ensure that HOME maximum per unit subsidy limits (Section 203(B)) are not exceeded and will notify HUD once the rehabilitation is complete. As agreed by HUD, federal funds may be used to bring the property into compliance with Section 504.

HUD's Response to Finding 8B: The state has not fully responded to the required corrective action under this finding. This corrective action requires the state to "...notify HUD when at least two (2) additional units have been made accessible to persons with mobility impairments to bring the apartment complex into compliance with the Section 504 requirements. In addition, there must be a procedure in place to ensure that the property owner agrees, in writing, to retrofit at least three (3) units for persons with sensory impairments. The state must also assure HUD that it has a process to prevent future noncompliance."

This portion of the finding remains open at this time. Please advise this office with an update as to the status of this portion of the finding on or before July 15, 2003.

We appreciate and acknowledge the efforts that the state has made so far in addressing these findings. If you have any questions, please contact Melodee Humbert, Senior Affordable Housing Specialist, at 817/978-5960.

Sincerely,
Signed by
Katie S. Worsham
Katie S. Worsham
Director

cc:
Ruth Cedillo
Sandy Mauro
Michael Jones, Chair
TDHCA Board of Directors



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Rick Perry
GOVERNOR

Edwina P. Carrington
EXECUTIVE DIRECTOR

BOARD MEMBERS
Michael E. Jones, *Chair*
Elizabeth Anderson
Shadrick Bogany
C. Kent Conine
Vidal Gonzalez
Norberto Salinas

July 15, 2003

Katie S. Worsham, Director
Office of Community Planning and Development
U.S. Department of Housing and Urban Development
801 Cherry Street, P.O. Box 2905
Fort Worth, TX 76113-2905

Re: Response to HOME Monitoring Report

Dear Ms. Worsham:

Enclosed please find the Texas Department of Housing and Community Affairs' (TDHCA/Department) response to the U.S. Department of Housing and Urban Development's Office of Community Planning and Development (HUD) follow-up letter dated June 20, 2003 related to the HOME Investment Partnerships Program (HOME) monitoring findings. Also enclosed, please find a copy of the Portfolio Management and Compliance Division's annual monitoring plan (ATTACHMENT G).

As a result of the recent reorganization and suggestions made by HUD, the Department has reviewed existing HOME program policies and procedures and the overall administration of the HOME program to identify deficiencies and areas for improvement. The attached report includes enhancements made by the Department to the monitoring and oversight of the HOME program, and incorporates suggestions made by HUD and ICF Consulting, as a HUD approved technical assistance provider.

As noted in the Department's previous response, THDCA anticipates that the Texas State Affordable Housing Corporation (TSAHC) will continue to actively work toward meeting corrective actions defined by HUD and TDHCA. In addition, the Department is currently in the process of identifying costs associated with TSAHC that will be questioned and/or disallowed and anticipates sending correspondence to TSAHC during the month of August related to this issue. Once the letter has been finalized, a copy will be provided to HUD.

Texas Department of Housing and Community Affairs
Response to Monitoring Report
July 15, 2003
Page 2 of 2

If you have any questions or need further assistance please feel free to contact me or Ruth Cedillo, Deputy Executive Director, at (512) 475-3882.

Sincerely,


for Edwina Carrington
Executive Director

cc: Jim Johnson, CPD Deputy Director
Art Zavala, CPD Program Manager
Melodee Humbert, Affordable Housing Specialist
Gayla Frazier, CPD Representative
Ruth Cedillo, Deputy Executive Director
Suzanne Phillips, TDHCA Portfolio Management and Compliance Director
Eric Pike, TDHCA Single Family Finance Production Director
Brooke Boston, TDHCA Multifamily Finance Production Director
William Dally, TDHCA Chief of Agency Administration
David Gaines, TDHCA Internal Audit
David Long, TSAHC Interim Manager

RESPONSE TO
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
MONITORING REPORT-STATE OF TEXAS
M-00/01-SG-48-0100

FINDING NO. 1:

- (A) The Department is not providing adequate monitoring and oversight of the processing and construction activities of its recipients, subrecipients, CHDOs, contractors, and/or developers in accordance with the HOME regulations and applicable Office of Management and Budget (OMB) circulars, to ensure that they are performing as required in the Department's various affordable housing programs.
- (B) The Department's Homebuyer Assistance (HBA), Owner-Occupied Housing Assistance (OCC) and Contract for Deed Conversion (CFD) programs are not in compliance with HOME regulations. There is insufficient or no documentation in the files that the properties assisted with these program activities are in compliance with the state's housing rehabilitation (property) standards and code requirements and, as applicable, local code requirements.

REQUIRED CORRECTIVE ACTION:

- (1) The Department must develop and submit for HUD approval, processes and procedures used to monitor and oversee recipients and subrecipients, including subrecipient contracts with lower-tier organizations. The process must include a commitment to provide sufficient construction monitoring of housing sites by qualified persons to ensure that beneficiaries are receiving the program benefits for which the public funds are being provided.
- (2) To ensure that in the future all assisted housing units will meet the required standards at activity completion; the Department must develop and submit for HUD approval processes and procedures for carrying out inspection and construction activities. This must include at least the following actions to be done and fully documented by qualified persons:
- (i) Initial inspections of each HOME assisted unit;
 - (ii) Method to ensure compliance with procurement requirements;
 - (iii) Inspections during construction by a qualified inspector to ensure that work is done as required and payments are justified; and
 - (iv) Final inspections to certify that the work was completed and units are in compliance with applicable standards prior to the final payment.

All documents must be signed and dated by the responsible persons. Among other requirements, the processes and procedures must specifically address the issue of regular inspection and oversight requirements regarding the construction activities by all such entities, including how they will assure that the completed work will be of high quality workmanship.

July 2003 Updated Response Finding 1A:

The Department ensures that all recipients and subrecipients that enter into contractual obligations with the Department to administer the HOME program comply with the rules and regulations governing the program, contract provisions, and applicable Department policy. The Department requires that subrecipients enter into contracts with lower-tier subrecipients and provide the Department with an oversight process to hold lower tier subrecipients accountable for contract activities. Oversight of recipient performance is conducted through a formal process that includes desk reviews; written and verbal communication; draw requests; on-site inspections, technical assistance visits and monitoring visits; and continual evaluation of recipient/subrecipient systems and policies.

During the initial phase of the contract process, the recipient is required to provide compliance documentation with project setups including identification of the contract administrator; application for payee identification; environmental clearance; contractor eligibility verification; and household income certification. The Department will not proceed with the setup process if documentation is missing or if submitted documentation is not approved by the Department. In addition, homebuyer activities also require that earnest money contracts and documentation supporting that the unit meets standards be submitted with the project setup forms. If the activity is owner occupied or rehabilitation, the recipient must submit an agreement between the recipient and the homeowner for rehabilitation activities; initial inspection, work write-up, and cost estimates conducted by qualified persons; and “before” photographs of the assisted property. All recipients are required to certify that no construction has occurred on any project prior to environmental clearance and notice to proceed from the Department.

The Department reviews project setup documentation to ensure that project costs do not exceed HOME maximum per-unit subsidy limits [Section 221 (d) (3) of the National Housing Act]. Management staff randomly review setups on a regular basis to ensure compliance with the requirements. In addition, FHA mortgage limits [Section 203 (b) of the National Housing Act] are reviewed for Homebuyer Assistance projects. Setup documentation is also reviewed to identify eligible forms of matching obligations and contributions.

During the interim phase of the contract, the Department requires that support documentation be submitted with each draw request to ensure that compliance requirements are being met and further requires a schedule of values; itemized invoice from the contractor; and project related soft cost documentation. Before a final draw request is processed, the recipient must submit an affidavit of all bills paid, waiver of liens, and transfer of warranty; final inspection and verification form for compliance with Texas Minimum Construction Standards signed by qualified persons; historically underutilized business report; project completion report; and final documentation supporting match requirements. If the project is new construction, the recipient must also submit documentation of compliance with the Model Energy Code.

Prior to draw approval, staff confirms that draw request dates are within the contract dates, that the recipient’s Single Audit or Audit Certification submission is current, that maximum amounts allowable for reimbursement are not exceeded, and that internal control mechanisms are reviewed.

Throughout the contract process, the Department initiates risk assessments, typically occurring on a quarterly basis, and assigns each recipient a risk ranking based on a review of the type of activity funded, the contract amount funded, the results of previous field and desk reviews, time since last review, the status of the most recent review, and whether there is a construction component in the HOME award. Other factors are considered including referrals by Department staff, complaints received, or referral by outside entities. Technical assistance and field visits are scheduled based on risk assessment and identified need.

Recipients that contract with subrecipients and lower tier organizations are typically considered high risk due to the volume of activities that occur and the higher award amount. Monitoring reviews associated with these contracts involve a review of each agreement executed between the recipient, subrecipient, and lower tiered organization, as applicable. Each subrecipient and lower tiered organization is treated as a separate contractor and all compliance areas are reviewed for each subrecipient. Monitoring visits of recipients with subrecipients and lower tiered organizations typically involves team monitoring to ensure that the review is thorough.

During technical assistance and field monitoring visits, the Department reviews program files, completes monitoring checklists related to the type of HOME program activity funded, and selects projects for on-site inspections. Specific areas reviewed during a field visit include program overview, financial management, labor standards, fair housing, Section 504, Section 3, environmental, procurement procedures, and case file review. Each program file must be supported by a description of the procedures performed and supporting documents. Department staff conduct desk reviews prior to each scheduled field monitoring to compare documentation received with documentation available on site.

The results of the visit are provided to the recipient/subrecipient with required corrective actions, if applicable. Follow-up visits may also be conducted to review and assess the efforts the recipient has made to correct previously noted deficiencies. If a recipient/subrecipient is unable to resolve outstanding issues, a determination is made related to the action needed to resolve the issue. These actions may include requesting guidance from the Department's legal staff or referral to the State Auditors office, if appropriate. Failure to resolve non-compliance findings and/or concerns may result in placing remaining funds on hold, deobligation of remaining funds, reimbursement of disallowed costs, reduction in score during future funding rounds, ineligibility for future program awards, contract termination, or other sanctions as allowed by contract provisions and applicable statutes.

The Department's HOME Program Policies and Procedures Manual and Form Library related to recipient administration is available on the Department's web site under *Programs, HOME Program* and the processes and procedures described above ensure that recipients administer HOME awards in accordance with the manual. The manual was previously provided to HUD for review and HUD has commented favorably.

Sample documents including a project setup checklist and sample setup documentation (ATTACHMENT A), draw checklist and sample draw documentation (ATTACHMENT B), and risk assessment factors and a sample risk analysis (ATTACHMENT C) have been attached for your review. The Department also anticipates that a new internal and external user system will be implemented during the month of August. The new TDHCA Contract Tracking system will replace the current edition of HOME On-Line and the current contract tracking and internal

database system. The new system will contain additional checks and balances in a continued effort to ensure that HOME program beneficiaries are receiving the program benefits for which the public funds are being provided. A copy of the draft user manual for the new TDHCA Contract Tracking System has also been submitted for your review (ATTACHMENT H).

July 2003 Updated Response Finding 1B:

The Department respectfully contends that the measures described above and previous responses demonstrate a commitment and capacity to provide HOME program services and monitoring of the HOME program including processes to ensure that inspection and construction activities are accomplished by qualified persons and that assisted housing units meet required standards at activity completion. Regarding initial, interim, and final inspections and compliance with procurement requirements, the Department currently receives and reviews numerous inspection reports submitted by the recipients throughout the construction phase of the contract. The timing of the reports depends on the type of activity funded. For example, under the Home Buyer Assistance Program, a final inspection is received prior to funding while under the Owner Occupied Assistance program, interim inspection reports are submitted with each draw and the final inspection is received prior to final payment for construction activities. Additionally, the Department's new monitoring process also includes a sample random selection of recipients and requests that inspector qualification certifications, bid packages, and procurement procedure documentation is submitted to the Department for review as a method of quality assurance.

The Department makes every effort to comply with the requirements of the HOME program including the use of qualified personnel, both contracted and on staff throughout the contract process. Sample documents have been attached for your review.

Regarding the simplified housing checklist sent to 1,112 households as directed by HUD, the Department received 212 responses. A review of the surveys returned indicates that in excess of 60% of the respondents did not identify any deficiencies. Of the respondents with noted deficiencies, the majority of the issues appear to be either minor in nature, related to normal wear and tear, or unrelated to housing rehabilitation assistance provided by the HOME program. The Department is currently in the process of reviewing respondents with identified deficiencies to determine required follow up and corrective actions, as applicable. Please note that the Department continued to receive and review submitted surveys until the end of June.

A list of the returned surveys has been attached for your review (ATTACHMENT D).

FINDING NO. 2:

- (A) The Texas State Affordable Housing Corporation's (TSAHC) third party lender, HOME Inc., failed to properly disburse HOME and Federal Housing Administration (FHA) Title I Home Improvement Loan funds. Specifically, a contractor received payment for uncompleted work. This may have resulted in homeowners accessing additional funding sources to complete the work, thus paying twice for the same work. A total of 27 households were identified as receiving assistance from HOME, Inc.
- (B) The Department has not indicated whether the assistance provided brought the assisted houses up to required construction standards.

REQUIRED CORRECTIVE ACTION:

The Department must clarify the actual number of units applicable to this finding. The Department previously reported that 33 HOME, Inc. projects were set up and five (5) project sites were cancelled in IDIS; therefore, a total of 28 loans (not 27 as previously reported) must be accounted for.

Although the Department may not be able to pursue legal action against contractors who completed the rehabilitation work, the units must meet all applicable property standards or the amount of HOME subsidies provided to the recipients must be repaid from nonfederal funds. The Department must provide a list of those properties that require additional work, including the names and addresses of the recipients, the amount provided under the FHA Title I Home Improvement Loan, and the name and address of each contractor that completed the construction work for each property.

July 2003 Updated Response Finding 2:

Regarding the actual number of units applicable to this finding, the Department has determined that HOME, Inc. originally committed to set up 33 project sites; however only 32 project sites were actually set up and of those, five (5) were cancelled and 27 loans were actually disbursed.

Regarding the 27 units that the Department has agreed to inspect, a total of eight (8) have been completed to date; two (2) were contacted that did not indicate any problems with their home and refused access; and numerous unsuccessful attempts made to contact the additional 17 beneficiaries to schedule inspections. Of the eight (8) inspections that occurred, three (3) passed inspection. Of the five (5) units that did not pass inspection, four (4) failed due to minor infractions including improper ventilation and nonfunctioning GCIF outlets; however the fifth housing unit, Mr. Samuel Cano's residence, failed for many infractions including debris around the housing site, faulty wiring, and faulty windows. The Department found the condition of the home to be deplorable, as previously described by HUD. Mr. Cano's residence is an example of where the Department will question costs related to TSAHC's assistance to the unit.

As a separate matter, the Department will determine how TDHCA can assist Mr. Cano and each of the other four (4) beneficiaries in the provision of adequate housing. In addition, the Department will continue attempts to contact 17 beneficiaries that have not responded to the Department's request for an inspection, or where the Department has been unable to locate the property.

An analysis of the attempted and completed inspection has been attached for your review (ATTACHMENT E).

FINDING NO. 3: This finding is cleared

This finding is cleared according to correspondence received from HUD dated June 20, 2003 related to the Department's assurance that corrective actions will continue to be taken as deficiencies are identified.

FINDING NO. 4:

Contract for Deed Conversion program (CFD) activities implemented by TSAHC were not in compliance with HOME program requirements. Specifically, 14 properties were identified by HUD. Of the 14 properties, 3 were vacant lots where construction of a housing unit did not commence within 12 months of the purchase of the land. The Department previously reimbursed HUD for the 3 vacant properties and agreed to repay funds for the additional 11 properties, as well as forgive the homeowner's debt to the state. However, the Department did not indicate whether the assistance provided brought the houses up to applicable Colonia construction standards.

REQUIRED CORRECTIVE ACTION:

The Department should conduct an inspection of the 11 houses identified as assisted through the CFD program and take required corrective actions, as applicable.

July 2003 Updated Response Finding 4:

The Department has completed one (1) inspection; four beneficiaries (4) were contacted that did not indicate any problems with their home and refused access; and numerous unsuccessful attempts made to contact the additional six (6) beneficiaries to schedule inspections. The inspection conducted at the home of Mr. Francisco Cortez concluded that the home did not pass inspection. The original structure on the lot at the time of HOME assistance was a mobile home (the home passed final inspection on November 28, 1998). Since that time, Mr. Cortez has constructed a block wall around the mobile home and tore down the original home. As a result, the Department has concluded that the original structure must have been substandard resulting in the demolition of the original unit. It should be noted that the current structure does not meet standards as construction has not been completed and wiring is exposed in the unit. This is another example of where the Department will question costs related to TSAHC's assistance to the unit.

The Department will determine how TDHCA can assist Mr. Cortez in the provision of adequate housing. In addition, the Department will continue attempts to contact the six (6) beneficiaries that have not responded to the Department's request for an inspection or where the Department has been unable to locate the property.

An analysis of the attempted inspections and completed inspection has been attached for your review (ATTACHMENT F).

FINDING NO. 5: (Non-correctable finding) – This finding is cleared

This finding is cleared according to correspondence received from HUD dated February 27, 2003 related to the Department's assurance that a process is in place to ensure future compliance.

FINDING NO. 6: This finding is cleared

This finding is cleared according to correspondence received from HUD dated June 20, 2003 related to information provided by the Department.

FINDING NO. 7: (Non-correctable finding) – This finding is cleared

This finding is cleared according to correspondence received from HUD dated June 27, 2002 related to the Department's response of February 19, 2002.

FINDING NO. 8:

- (A) There is no documentation that newly constructed units (single family and multifamily) are in compliance with the current edition of the Model Energy Code (MEC) published by the Council of American Building Officials. Specifically, this involves 269 newly constructed housing units, 62 of which have already been documented as in compliance.
- (B) The Keystone apartment complex in Weslaco is not in compliance with Section 504 (handicapped accessibility) relative to units that are accessible for persons with visual and/or hearing impairments.

REQUIRED CORRECTIVE ACTION:

- (A) The Department previously notified HUD that 154 of the 269 units have been documented as in compliance with MEC, however the Department and TSAHC have been unable to obtain documented compliance for the remaining 115 units. As a result, the Department and, as appropriate, TSAHC must continue efforts to obtain documentation for the remaining 115 newly constructed rental units. The subsidies provided for any units for which compliance cannot be determined must be repaid to the state's local HOME account from nonfederal funds.
- (B) The Department must notify HUD when at least two (2) additional units have been made accessible to persons with mobility impairments to bring the apartment complex into compliance with Section 504 requirements. In addition, there must be a procedure in place to ensure that the property owner agrees, in writing, to retrofit at least three (3) units for persons with sensory impairments. The Department must also ensure HUD that it has a process to prevent future noncompliance.

July 2003 Updated Response Finding 8A:

The Department is currently in discussions with TSAHC in an effort to resolve this issue. Although TSAHC has been unable to obtain documentation of compliance for the remaining 115 units, attempts are still being made to contact the original inspectors. The Department and TSAHC are also exploring other methods of documenting compliance including obtaining blue prints of the buildings or verification from local building inspectors that the units comply with Model Energy Code requirements.

The Department continues to assert that given the sample of certifications received, assurance can reasonably be obtained that the remaining units are in compliance with MEC requirements. This is based on the fact that all units previously certified were in compliance with MEC and contractors incorporate MEC requirements into new construction activities. As a result, the Department respectfully requests that this finding be considered substantially in compliance and that the finding be cleared.

July 2003 Updated Response Finding 8B:

The Department has received verification that the Keystone apartment complex in Weslaco, Texas is now in compliance with Section 504 (handicapped accessibility) relative to units that are accessible for persons with visual and/or hearing impairments. Keystone Apartments exceeded requirements by designating and retrofitting unit numbers 212, 213, 617, 711, 718, 812, and 813 for persons with mobility impairments and unit numbers 211, 315, and 911 for persons with sensory impairments.

The Department assures HUD that processes are in place to ensure future compliance. A review of compliance with Section 504 is a component of Portfolio Management staff's monitoring review process. In addition, Compliance Monitoring and Asset Management staff review single and multi-family affordable housing properties annually if the property includes 25 units or more to ensure adherence to program requirements and deed restrictions, including compliance with Section 504 requirements.

Texas Department of Housing and Community Affairs

*2002 Annual Review of TDHCA Performance of Duties based on
Memorandum of Understanding between the
Resolution Trust Corporation*

FDIC

Federal Deposit Insurance Corporation

1910 Pacific Avenue, Dallas, Texas 75201 • (214) 754-0098

Division of Resolutions & Receiverships • Dallas Field Operations Branch



Office of Richard L. Mann



June 30, 2003

Ms. Suzanne Phillips
Director of Compliance Division
Texas Department of Housing and Community Affairs
507 Sabine Street, Suite 400
Austin, Texas 78701

RE: 2003 Annual Review of Texas Department of Housing & Community Affairs

Dear Ms. Phillips:

Please find enclosed the completed Annual Review done by the monitoring and compliance unit of the Affordable Housing Program of the FDIC, Dallas Field Operation Branch.

Again, you and your staff continue to be benchmark that the FDIC uses to compare all other monitoring agencies for the FDIC AHP. The FIDC greatly appreciates the excellent job done by TDHCA.

Both Mr. Olson and I would like to thank you and your staff for the help and cooperation we received during this review.

If you have any questions or concerns on this matter, please contact me at (972) 761-8314.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard L. Mann".

Richard L. Mann
Resolutions and Receiverships Specialist

Enclosures

**FEDERAL DEPOSIT INSURANCE CORPORATION
AFFORDABLE HOUSING DISPOSITION PROGRAM
MONITORING AND COMPLIANCE UNIT
ANNUAL REVIEW OF TEXAS DEPARTMENT OF HOUSING & COMMUNITY
AFFAIRS**

REVIEWERS: Richard Mann, Resolutions and Receiverships Specialist
Rick Olson, Resolutions and Receiverships Specialist

DATE: June 3 and 4, 2003

LOCATION: TDHCA Office
507 Sabine Street, Suite 400
Austin, Texas

TDHCA OFFICIALS: Sara Carr Newsom, Compliance Manager
Julie Cantu, Compliance Monitor

AUDITING METHOD:

This was the eighth review conducted by the FDIC on the performance of duties by Texas Department of Housing and Community Affairs ("TDHCA") based on the Memorandum of Understanding ("MOU") between the RTC and TDHCA, for TDHCA to act as the RTC's monitoring and compliance agent for the State of Texas. Basic guidelines have been developed that incorporated the most important elements as defined under the MOU, the FDIC continues to follow these guidelines.

These elements include:

Organization/Staffing
Policy Implementation
Enforcement
Record Management
Training & Support

The FDIC staff conducted interviews with the TDHCA staff and performed a file review of the fifty largest multifamily properties listed in the current semi-annual report.

CONCLUSIONS:

TDHCA continues to produce an exceptional work product. They carry out their obligation under the MOU, insuring that the owners of AHDP properties meet their commitment as outlined in the LURAs. Management's philosophy of maintaining affordable housing for lower income families across the State of Texas is evident in the manner that they carry out their monitoring efforts. TDHCA continues to be the benchmark that all other monitoring agencies are compared.

STAFFING:

The staff of TDHCA consists of Suzanne Phillips, Director of Compliance, Sara Carr Newsom, Compliance Manager, Nancy Dean, Senior Compliance Monitor and a number compliance monitors, Ms. Julie Cantu is the FDIC's contact at TDHCA. This staff is very knowledgeable in regards to the RTC/FDIC affordable housing monitoring and compliance requirements. They are well versed in the language and intent of the LURAs.

TDHCA continues to re-assigned RTC/FDIC AHP properties every 2 to 4 years. The properties are assigned by property management companies, so that the property management companies would only have to work with one or two compliance monitors.

In August of 1997, TDHCA entered into a contract with MDSI to manage the FDIC AHP properties, since 2000 the duties of MDSI have been expanded to include on-site audits and desk audits for non-problem properties. If a FDIC AHP property becomes a non-compliant property, the TDHCA monitor would oversee the day to day monitoring activity. By using MDSI, the amount of time involved in working the FDIC AHP properties is now 20%. Ms Newsom and Ms. Cantu are very pleased with the level of work being produced by MDSI. MDSI continues to do one-on-one training by telephone and in person with owners and managers of FDIC properties.

POLICY IMPLEMENTATION AND QUALITY CONTROL:

TDHCA and MDSI staffs are trained to carry out the FDIC AHP policies in a fair and equitable manner to ensure the intent of the program remains in place. Management of TDHCA continues to make sure that once a procedure has been established that the procedure is enforced across the board.

TDHCA has also developed in-house procedures that complement the FDIC manual. The following is a short list of some of the forms developed by TDHCA;

1. FDIC Affordable Housing Program Desk Audit Procedures
2. Notice of Non-compliance and Schedule of Fees
3. Invoicing
4. Procedures for on-site monitoring reviews
5. FDIC reporting procedures

ENFORCEMENT:

TDHCA continues to work toward achieving full compliance in all FDIC AHP properties, because of the large number of properties and the ever-changing ownership and property management companies of these properties, reaching 100% of full compliance is next to impossible. Currently TDHCA's percentage of full compliance properties is currently 81%. TDHCA is able to achieve this high number of properties in full compliance because of the large number of telephone calls, letters and notification of non-compliance sent to the owners and property managers. TDHCA continues to request the assistance of the FDIC in working with problem owners. Through this working arrangement, a number of problem owners are working towards compliance.

RECORD MANGEMENT:

TDHCA currently uses the Compliance Monitoring System ("CMS"), however since the FDIC is no longer supporting this system, TDHCA is developing a new compliance information system that will allow property owners to report the status of their property via the internet.

The quality of the property files continues to be excellent. All files are well documented with a copy of the LURA and copies of the TICs. Forms and form letters have been developed to ensure monitors follow the same guidelines when performing desk and site audits. The files are six part files and the same arrangement of the documents is used for all properties, this allows for quick access and review. All correspondence, verbal or written, is well documented. Non-compliance notices are sent out using certified mail and receipts are maintained in the files.

TRAINING:

TDHCA continues to hold at least quarterly training sessions in the Dallas, Houston and Austin areas, to provide more that adequate opportunities for all owners and property managers to attend one of these sessions. Several other monitoring agencies have also attended these training sessions.

RECOMMENDTION:

During the file review it so noted that a number of properties had on-site inspections scheduled but the completed reports were not in the property file. These reports were in a separate file. It is recommended that a copy of the inspection reports be placed in the property file.

Texas Department of Housing and Community Affairs

*State Energy Conservation Office
On-Site Program Monitoring Report Relating to the Department's
Administration of SECO Contract*

STATE ENERGY CONSERVATION OFFICE (SECO)

Date of Site Visit: May 14, 2003

ON-SITE PROGRAM MONITORING REPORT (10/25/99)

This checklist serves as a guideline in determining the contractor's effectiveness in accomplishing prescribed objectives, as stated in the contract or loan agreement for all programs funded by SECO. The monitoring visit focuses on three specific areas: 1) Project Administration, 2) Financial Administration, and 3) Equal Employment Opportunity (EEO).

Program Name: Housing Partnership Program
Contract Number: C9001
Number of Amendments: Initial Contract \$2,000,000 (No Match) May 15, 1998 – August 31, 1999
Amendment No. 1 – Extend contract to August 31, 2000
Amendment No. 2 – Adds \$1,000,000 to Subcontract Category, requires \$2,950,000 match
Amendment No. 3 – Adds \$1,000,000 to Subcontract Category, requires \$3,500,000 match, Extends contract to August 31, 2001
Amendment No. 4 – Extends contract to August 31, 2003

Contractor=s Name: Texas Department of Housing and Community Affairs
Contract Term: May 15, 1998 through August 31, 2003
Funding Source(s): Exxon Oil Overcharge
Funding Amount(s): \$4,000,000.00

| | | | |
|---------------------------------------|----------------------------|--------------------------|--------------|
| Site Contact's Name: | Brooke Boston, Dir. | Phone/Fax Number: | 512-475-3061 |
| Contract Administrator's Name: | Mary-Jo Rowan | Phone/Fax Number: | 512-463-2637 |
| Contract Monitor's Name: | Frank Kinsman | Phone/Fax Number: | 972-644-7876 |
| Other Attendees Names: | David Gaines Int. Audit | Phone/Fax Number: | 512-475-3813 |
| | Emily Weilbaecher, Assist. | Phone/Fax Number: | |
| | Marco Cruz | Phone/Fax Number: | 512-475-3860 |

PROJECT ADMINISTRATION

1) Briefly describe the objectives of the contract/loan agreement.

SECO, through the Housing Trust Fund Partnership, is to provide incremental funding to selected projects through competitive grants that require higher levels of energy efficiency in low-income housing units. SECO funding may be used for energy efficient measures and requires a dollar for dollar match. Energy efficient measures that may be funded include window improvements, thermal envelope insulation, high efficiency HVAC and DHW systems, water conservation measures, lighting improvements, and high efficiency appliances (e.g., refrigerators, stoves, washing machines, etc.).

The Texas Department of Housing and Community Affairs (TDHCA) is to issue a Notice of Funding Availability (NOFA) on an annual basis and select developers to participate in

the Housing Trust Fund Partnership (HTFP). The selected developers are to install prescribed levels of energy efficient measures, appliances and equipment in low-income housing units.

a) Are the objectives being met?

There are no objectives that can be quantified except to award the funds available for energy efficiency measures under the guidelines, political* and technical, governing this program.

* Distribution within political subdivisions of the state

Regarding deliverables:

| <u>Task</u> | <u>Schedule</u> | <u>Status</u> |
|--|---|--|
| 1. Announce availability of funds (NOFAs) | Annually | Latest announcement (subject to availability of funds) Dec. 7, 2002 |
| 2.,3.,4. Distribute, revise & score applications | Annually | Latest cycle to be complete this month May 2003. About 34 applications received |
| 5. Approve all qualifying applications | Annually | Latest cycle Schedule June, July, 2003 |
| 6.,7. Prepare and cause to be executed, all award subcontracts | Annually | Latest cycle schedule to be complete Aug., 2003 |
| 8. Collect and verify all documentation regarding allowable expenditures by subcontractors | Monthly | On-going – Timing is based on invoices being received from subcontractors even more frequently than once per month in some cases |
| 9. Conduct visual and mechanical inspection of all work | Mid-construction & completion | Work is on-going |
| 10. Prepare and submit quarterly reports | 10 days after end of each state quarter | None have been received by SECO since Nov. 2001. Additional reports are in TDHCA files but they were not sent to SECO |
| 11. Compare and submit monthly progress reports | 10 th day after each month | First report submitted this ?? year this week. Spread sheet only with no explanations or comments |

2) What internal management reporting systems have been established to ensure that the contract/loan agreement's objectives are achieved?

TDHCA has just undergone reorganization (March, 2003) and they are moving away from the concept of program managers (i.e., they are dividing duties by class of work) and no single person appears to have complete knowledge of this SECO funded program.

a) Is there adequate oversight?

It does not appear adequate. Even if each submanager is on top of his or her work (as assigned) no one has the complete picture so that the total program can be controlled and modified as necessary to insure that the objectives and deliverables are being met.

3) Has the contract/loan agreement been implemented according to the approved scope of work?

Generally yes – but deliverables to SECO are lacking and the only people that know what is going on in the field appears to be inspectors who do not report to the designated SECO contact.

a) If not, describe how the project is being implemented.

Keith Hoffpaiver, the Program Manager by contract, has left TDHCA. Brooke Boston has been designated by TDHCA to take Keith's place, but approval has not yet been sought from SECO regarding this move. Brooke and her assistant, Emily, are new to the program and they are also shielded from field operations due to the splits of responsibilities within TDHCA.

4) Have the contract/loan agreement deliverables been submitted as scheduled?

No

5) What is the approximate percentage of completion of the contract/loan agreement?

Based on reimbursable expenses submitted to SECO, about 88%

6) Is the project being publicized and promoted?

Yes – there are more applications than can be funded

7) If publications have been developed with project funds, is there a credit/disclaimer being printed on each project publication? (Re: Steven's Amendment)

NA

8) Is the project proving to be responsive to the needs of the target audience for which it was developed?

It appears so, but there was no first hand contact by this monitor, with field operations and subcontractors

9) Is there a need for technical training of contractor's staff?

Based on review of sample field inspection reports, these reports appeared to be thorough. It also appears that SECO (Felix Lopez) is providing technical support in reviewing construction documents. So, it does not appear that more training is required.

10) If applicable, has the project produced the energy savings projected?

No savings goals have been set

11) What internal management reporting systems have been established to ensure that the contract/loan agreement's objectives are achieved?

Only brief verbal reports on this program are being made to the executive level within TDHCA. Apparently this does not include any reporting of problems being experienced. It was stated that all problems are being handled at lower levels whenever they occur.

12) Is someone assigned responsibility for reviewing reports and follow-up variance?

No one person has total responsibility

13) Does a written policy exist that establishes responsibility and also provides the procedures for periodic monitoring, verification and reporting of program progress and accomplishments?

No – TDHCA has a SOP document but it reflects the older program manager concept. A new SOP is being developed at this time

14) Does the contractor have a method to recover lost data resulting from a disaster or system crash?

Yes – everything is backed up on tape each night and the tapes are stored off-site

15) The following documents were reviewed to verify if the contractor has an orderly filing system for the administration of this contract/loan agreement.

| Item | Available |
|---|---|
| a) Complete, signed copy of contract or loan agreement. | Yes No |
| b) Complete, signed copy of amendments. | Yes No |
| c) Copies of quarterly reports. | Yes No Many were not sent to SECO |
| d) Copies of deliverables. | Yes No No monthly reports until April, 2003 |

- | | | | | |
|----|------------------------------|-----|----|---|
| e) | Copies of monthly invoices. | Yes | No | NA invoices are sent as soon as expenses are incurred |
| f) | Correspondence to/from SECO. | Yes | No | |
| g) | Equipment inventory list. | Yes | No | NA |

Comments:

Technical aspects of this program may be going well but without contact with subcontractors and field operations, no one knows for sure. Administratively, this program is suffering from loss of the historic program manager. A new contact person for SECO (Brooke Boston) has been assigned by TCHCA. Brooke has multiple responsibilities, and is trying to learn the details of this program during a major TDHCA reorganization that is going away from the historic program manager concept.

FINANCIAL ADMINISTRATION

- 1) **Have there been any deviations from the contract/loan agreement regarding the expenditures of project funds?**

Originally the contract concept was to fund incremental costs for improved energy efficiency measures. This concept has evolved to total funding of measures up to \$1,500 per housing unit.

- 2) **Is the contractor submitting monthly invoices for reimbursement? If not, why not?**

No, invoices are being submitted as soon as expenses are submitted by subcontractors for reimbursement.

- a) **Regarding loan agreements, is the contractor repaying the loan according to the amortization schedule?**

NA

- 3) **Are there any anticipated budget category adjustments greater than 10 percent?**

No

- 4) **Are there established procedures for the procurement of equipment and services purchased with project funds?**

Yes

- 5) **Are there established procedures for the security and controlled use of property purchased with project funds?**

NA – these are grant funds going to the field construction

6) **If applicable, when was an independent financial audit performed?**

By KPMA dated November 2002 covering the year ending August 31, 2002

7) **Are budgeted amounts compared to actual amounts at least quarterly?**

Yes

8) **Can time and attendance reports be specifically traced back to the actual payroll?**

NA

9) **Does the Contractor have written policies and procedures for their budget process? If no, explain the contractor's budget process.**

Yes

10) **What is the contractor's current financial status of this project?**

| | | |
|--|------------------------|-------------------------|
| Contract Amount: | \$ 4,000,000.00 | Matching \$3,500,000.00 |
| Less funds received as of 4/18/03: | \$ <u>3,114,430.09</u> | |
| Balance of funds as of this report: | \$ 885,589.91 | |

Invoices forwarded to SECO
Yet unpaid:
4/23/03 \$ 62,594.00
5/13/03 \$325,000.00

After these additional invoice payments, the current balance will be: \$479,975.91, but no total record of matching funds is available.

Comments:

TDHCA provided spreadsheets during this visit that show all 59 awards since the inception of this program. It appears from these records that \$5,586,042.00 has been awarded but de-obligations of \$1,406,528.30 have been made due to turn downs of awards, only partial reimbursement requests, or projects coming in under budget. Obligations include \$1,095,538.00 of awards made on 8/8/02 that do not show any de-obligations yet but this would seem to support \$4,179,513.70 against the \$4,000,000.00 contract with SECO (see below):

| | |
|------------------------|----------------|
| \$4,000,000.00 | Contract |
| <\$5,586,042.00> | Awards |
| \$ <u>1,406,528.30</u> | De-obligations |
| \$ 4,179,513.70 | Obligations |

This needs to be verified.

- 1) **Since the project is funded with federal pass through funds, are there posters or other written information prominently displayed which states the contractor's policy of non-discrimination?**

The Texas Department of Housing & Community Affairs posts notices in prominent areas, which address its policy on Equal Employment Opportunity from a State and Federal standpoint:

State: "We post a notice from the Texas Commission on Human Rights that prohibits employers, agencies, and labor unions from denying Equal Employment Opportunity in hiring, promotions, discharge, pay, fringe benefits, membership, training, and other aspects of employment because of race, color, national origin, sex, age, or disability."

Federal: "We post a notice that states that Equal Employment Opportunity is the LAW! Employers holding Federal contracts or subcontracts are prohibited from denying Equal Employment Opportunities due to race, color, religion, sex, national origin, disability, age, or veteran status."

- 2) **Does the contractor have an Affirmative Action Plan/Officer?**

The agency has appointed the Human Resources Manager as the agency's Affirmative Action Officer who is responsible for ensuring that the agency's Affirmative Action Plan is in compliance with requirements.

- 3) **Does the contractor have an established written complaint procedure in handling matters pertaining to Equal Employment Opportunity?**

The agency has specific sections in its Personnel Policies and Procedures that address methods by which employees can express their grievances concerning Equal Employment Opportunity and other any other complaints, including sexual harassment.

- 4) **What steps did the contractor take to ensure that Historically Underutilized Businesses (HUBs) were used as possible sources of supplies, equipment and or services?**

The agency has a HUB Coordinator and the Purchasing department has a HUB Procurement Plan for obtaining goods and services specifically for the agency.

In conclusion:

TDHCA has a well documented Personnel Policies and Procedures manual to insure EEO compliance.

Any final comments, observations, or recommendations concerning the overall administration of this project:

Administrative attention to contract obligations by TDHCA has not been good; reports have not been forwarded on time, reports received do not include information specified in their contract, and the program manager has been changed without SECO approval.

In addition, TDHCA is undergoing a major reorganization and getting away from the single point, program manager concept. This is going to make it difficult, if not impossible, for SECO to know what is going on with this program in the future.

TDHCA is going forward at this point assuming they will be getting significant additional funding through SECO.

Spreadsheet information provided to this monitor by TDHCA does not seem to support the financial summary given by TDHCA and shown on page 6 of this report.

TDHCA needs to submit a report to SECO for change in program manager. This request should also address the issue of how the TDHCA manager will be able to keep SECO informed on all administrative, financial, technical and field operation issues.

SECO must be able to reconcile and understand the various financial reports that are being sent to them by TDHCA.

SECO needs to make it clear what, if any, funding TDHCA can expect to fund the current grant applications.

SECO needs to have an understanding with TDHCA regarding content to be included in TDHCA reports. SECO personnel, or a third party representative needs to interface with some subcontractors and field operations to gain a better understanding of what successes and problems are occurring within this program.

Signature of Monitor

5/16/03

Date

Vice President of Operations

Title

Texas Department of Housing and Community Affairs

*Section 8
Rental Integrity Monitoring Review
Scheduled for July 28 - August 1, 2003*



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Texas State Office, Southwest
Office of Public Housing
801 Cherry Street
P.O. Box 2905
Fort Worth, Texas 76113-2905

July 1, 2003

Edwina Carrington, Executive Director
Texas Department of Housing and Community Affairs
PO Box 13941
Austin, TX 78711

Dear Ms. Carrington:

Subject: Section 8 – Rental Integrity Monitoring (RIM) Review
Scheduled for July 28 – August 1, 2003

HUD is launching several significant initiatives that are expected to help improve the effectiveness of its rental housing assistance programs. One such initiative is the Rental Integrity Monitoring Review (RIM).

RIM reviews are but one strategy in a larger, HUD-wide effort to reduce income and rent errors and improper payments in the administration of both the public housing and Section 8 programs. The primary objectives of the RIM reviews are:

- Detect and reduce errors in income and rent calculations at targeted PHAs;
- Reduce rent underpayments and/or overpayments by residents; and
- Maximize HUD's limited housing resources thereby assuring maximum participation in HUD's housing programs by as many low-income families as feasible.

RIM will entail an on-site review by HUD staff to review your occupancy records and your processes for calculating rent and income. HUD staff will consist of team members from the Fort Worth, Houston, and San Antonio Field Offices. We will conduct an opening meeting at 11:00 am on Monday, July 28, 2003, to explain the RIM review process to you and your staff and answer any questions you might have.

HUD staff will review a total of 35 resident files from the Section 8 program. The resident files that HUD staff will review will be selected from your latest PIC submissions and a random selection of files when HUD staff arrives. We will fax the resident names the week prior to our visit so that your staff can begin pulling the files and have them available for HUD staff at one location. Please mail our office a copy of your Administrative Plan, application package, reexamination package, utility allowances, and payment standards no later than July 18, 2003.

If you have any question regarding the RIM Review, please contact Becky Kruse at (817) 978-5705.

Sincerely,

Roman R. Palomares
Deputy Director
Office of Public Housing

✓cc:

Michael Jones, Chairperson
Texas Department of Housing and Community Affairs
500 Plaza Tower
Tyler, TX 75702

Texas Department of Housing and Community Affairs

*State Auditor's Report (SAO), Selected Assistance Programs at the
Texas Department of Housing and Community Affairs*

Texas Department of Housing and Community Affairs

*State Auditors Report Dated June 2003,
Selected Assistance Programs at the Department of Housing and
Community Affairs -
Analysis of Audit Conditions Noted and Department's Associated
Controls/Procedures and Actions Taken/Planned*

Texas Department of Housing and Community Affairs
State Auditors Report dated June 2003, *Selected Assistance Programs at the Department of Housing and Community Affairs*
Analysis of Audit Conditions Noted and Department's Associated Controls/Procedures and Actions Taken/Planned

| Summary of Audit Condition & Recommendation | TDHCA Controls/Procedures in Place at time of Audit | | Other Comments, including Department Actions Taken or Planned ¹ |
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| | To Ensure Compliance Related to / Protect Against Audit Condition Noted | To Ensure Adequate Supervision/Quality Control | |
| <p>Chapter 1-A Eligibility Issues Unique to the Weatherization of Multi-Family Dwellings Increase the Risk that Subgrantees Could Provide Unallowable Services to Ineligible People</p> <p>The Department Does Not Ensure That Subgrantees Provide Weatherization Services To Only Eligible Multi-Family Dwellings</p> <ul style="list-style-type: none"> ▪ Two subgrantees did not have evidence showing that they complied with a federal requirement that 66 percent of the units in the buildings in the multi-family dwellings they weatherized met income-eligibility requirements. Another subgrantee provided evidence for several of its multi-family dwellings. However, that documentation indicated that one of the buildings in a dwelling was not eligible for weatherization, yet this subgrantee weatherized at least two of the units in that building during our test period at a cost of \$7,299. | <p>10 CFR 440 Final Rule issued February 1, 2002 directs TDHCA to address the weatherization of multi-family dwellings. Multi-family regulations are provided for in 10 CFR 440 Section 22. While relevant regulations are provided to the subrecipients, the Department did not have established procedures to ensure compliance.</p> | <p>Procedures were not in place to provide reasonable assurance of compliance.</p> | <p>Modification to the monitoring instrument and a new WAP policy Issuance requires documentation of a multi family project's eligibility. New procedure requires verification of individual household eligibility, individual building eligibility and project eligibility. Documentation must be completed and approved prior to project commencement. Relevant documentation will be copied and returned to TDHCA for review by the Project Manager prior to the developing of the monitoring report. The report will be reviewed by the Program Manager and the Division Director, if appropriate. Documentation will be available for Manager and Director reviews on a sample basis and as needed.</p> <p>TDHCA is in the process of analyzing the conditions noted by the SAO and will recoup all WAP funds determined to be disallowed.</p> |
| <ul style="list-style-type: none"> ▪ Two subgrantees may have spent WAP funds inappropriately because they incorrectly used Section 8 program eligibility criteria to determine whether some multi-family dwellings units were eligible for weatherization services. The income eligibility | <p>10 CFR 440 Section 22 speaks to dwelling unit eligibility and states the following.</p> | <p>Program Officers conduct onsite monitoring independently; at this time no onsite supervision</p> | <p>Documentation subject to monitoring will be copied and returned to TDHCA for review by the Project Manager prior to the</p> |

¹ Also note planned actions documented in the Department's response, dated June 25, 2003, to the State Auditor's Office report, *Selected Assistance Programs at the Department of Housing and Community Affairs*, which is included as Appendix 4 to the SAO report.

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| <p>thresholds for WAP and Section 8 differ, and many households that qualify for Section 8 still do not qualify for WAP services.</p> <ul style="list-style-type: none"> One subgrantee's files for one of its multi-family dwellings included only copies of the residents' rental applications and did not include any other form of income verification required by the Department. The rental applications did not require the residents to certify that their income was at or below the threshold amount for the program. | <p><i>A dwelling unit shall be eligible for weatherization assistance under this part if it is occupied by a family unit:</i></p> <ul style="list-style-type: none"> <i>Whose income is at or below 125% of the poverty level determined in accordance with criteria established by the Director of OMB;</i> <i>or containing a member who has received cash assistance under Title IX or XVI of the Social Security Act or applicable State or local law at any time during the 12 months period preceding the determination.</i> <p>The TDHCA WAP Contracts details that eligibility documentation shall consist of checks, check stubs, award letters, employer statements and other similar documents including total income and public assistance payments.</p> <p>Program Officers conduct onsite monitoring using a monitoring instrument that factors in the above considerations to determine client eligibility.</p> | <p>is provided.</p> <p>Monitoring reports developed by Program Officer as a result of onsite monitoring are reviewed by the Project Manager and Program Manager prior to release to the subgrantee.</p> | <p>developing the monitoring report. The report will be review by the Program Manager and Division Director, if appropriate. Documentation supporting monitoring results will be available for review by Manager and Director reviews on a sample basis and as needed.</p> |
| <p>The Department Does Not Ensure That Subgrantees Do Not Exceed The Maximum to Weatherize a Multi-Family Dwelling (\$2,568 times the number of units inhabited by eligible residents in the multi-family dwelling)</p> <p>The Department does not track how much a subgrantee spends on individual multi-family dwellings or on single-family versus multi-family dwellings. In addition, the subgrantees did not maintain</p> | <p>The TDHCA WAP Contract Attachment A states "WAP costs per unit, excluding health and safety</p> | <p>Program Officers generate reports which are reviewed by the</p> | <p>Modification to the monitoring instrument and a new WAP policy Issuance will ensure Subgrantees</p> |

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| records on the number of dwellings units that were in each of the multi-family dwellings or the number of individual units that were inhabited by income-eligible families. | <p>expenses shall not exceed \$2568.” TDHCA may allow subgrantees to exceed the maximum cost per unit if a subgrantee seeks prior approval in a written format.</p> <p>Program Officers calculate the average cost per unit during on-site monitoring visits to assure compliance.</p> <p>Contract Specialist review the reported average cost per unit on DOE reports on a monthly basis.</p> <p>A close out review is conducted by the Financial Administration Section to verify the State of Texas complies with 10 CFR 440.18 and does not exceed the average cost of \$2568 per unit upon completion of the program year. The calculation is conducted on a subgrantee basis and any subgrantee found to have an average cost that exceeds the maximum level is required to reimburse the cost in excess.</p> <p>In the history of the WAP Program TDHCA has not exceeded the maximum cost per unit on a State wide basis.</p> | Project Manager and Program Manger prior to release to the subgrantee. | do not exceed the maximum cost per unit. Documentation subject to monitoring will be copied and returned to TDHCA for review by the Project Manager prior to the developing the monitoring report. The report will be reviewed by the Program Manager and Division Director, if appropriate. Documentation supporting monitoring results will be available for review by Manager and Director reviews on a sample and as needed. |
| <p>The Department Does Not Ensure that the Subgrantees that Weatherize Multi-Family Units Fulfill a Variety of Other WAP Requirements</p> <ul style="list-style-type: none"> ▪ Applicants did not always fully complete WAP applications and did not always sign them. | TDHCA WAP contract Section 9 states that the contractor shall comply with the record keeping | Program Officers generated reports which are reviewed by the | Modification to the monitoring instrument will require identification of all onsite |

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| <ul style="list-style-type: none"> ▪ Authorized individuals did not always sign final inspection forms indicating that the weatherization work had been completed. ▪ At one subgrantee, utility billing histories were obtained without the appropriate authorization. In 16 of 47 cases we reviewed, the person who authorized the release of the information was not the person responsible for paying the bill. <p>This subgrantee also did not have contracts with the owners of two multi-family dwellings to ensure that the owners did not inappropriately raise their rents. The Department has adopted a contract for subgrantees to use that would address this requirement, but it does not have a process to ensure that subgrantees always use this contract.</p> | <p>requirements set forth in 10 CFR 440.24 and with such additional record keeping requirements specified by Department. For each dwelling unit weatherized from WAP under this contract, contractor shall maintain, among other documents, (1) a file containing the completed application for Weatherization services, which include a client release form for utility billing histories, (2) Building Weatherization Reports, including a certification of final inspection, (3) 12 month customer billing histories / consumption & release forms, and (4) Landlord agreement forms adopted by the Department to ensure that owners of multi-family dwellings do not inappropriately raise rents. .</p> <p>The monitoring instrument used by Program Officers includes a check list of specific items required in the client file which are reviewed during field visits to determine completeness and assure compliance with record keeping requirements of the client files are reviewed during field visits. Program Officers at a minimum review 10% of the client files.</p> | <p>Project Manager and Program Manger prior to release to the subgrantee.</p> | <p>documentation reviewed and ensure compliance with record keeping requirements. Documentation must be complete and found in client files at the time of the on-site review.</p> <p>Documentation subject to monitoring will be copied and returned to TDHCA for review by the Project Manager prior to the developing the monitoring report. The report will be review by the Program Manager and the Division Director if appropriate. Documentation supporting monitoring results will be available for review by Managers and Directors on a sample basis and as needed.</p> |
| <p>Chapter 1-B Weaknesses in the Process that Three Programs Use to Determine Income Eligibility Increase the Risk that Ineligible Applicants</p> | | | |

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| Could Receive Program Services | | | |
| <p>The process that the WAP, CEAP and CSBG subgrantees use to determine income eligibility for services is an allowable process under federal regulations. However, it does not ensure that only qualified individuals receive services.</p> <p>For each of these three programs, the Department's policy allows subgrantees to estimate an applicant's annual household income by annualizing a part of a year's income. Most programs have chosen to obtain documentation for an applicant's 30-day of income and multiply that amount by 12 to estimate annual income. However, by using only 30 days of income, the Department allows applicants to receive services even if their annual household incomes exceed the program's income eligibility thresholds. Annualizing 30 days of income also could exclude applicants from receiving services even if their annual household incomes are less than the program's income eligibility thresholds.</p> <p>Using employer-reported income information that the Texas Workforce Commission (Commission) collects, we found that 10 percent of the applicants we tested received program services even when their annual household incomes (according to the Commission's data) exceeded the program's income eligibility thresholds.</p> | <p>Department of Energy WAP Program Notice 03-3 states "Income data for part of a year may be annualized in order to determine eligibility. The method of calculation is to be determined by the Grantee." Previously calculations were based on the amount of income household received in the past 30 days, which was annualized to determine the level of annual income for the household.</p> <p>CEAP and CSBG calculations of annual income have also been based on the amount of household income received in the past 30 days.</p> <p>Calculations and verification of household eligibility were reviewed as part of the onsite monitoring process by TDHCA Program Officers. Any services provided to a household that do not meet the income guidelines are disallowed.</p> | <p>The process that the WAP, CEAP and CSBG subgrantees use to determine income eligibility for services is an allowable process under federal regulations.</p> | <p>Income calculation and the process to determine household annual income will be modified to include the previous 90 days to better ensure income eligibility criteria is met.</p> |
| Chapter 1-C The Department Does Not Ensure That WAP Subgrantees Provide Allowable, Cost-Effective Services | | | |
| <p>The Department does not ensure that WAP subgrantees provide allowable services (regardless of whether the weatherized dwelling is a single- or multi-family dwelling). The following examples illustrate how subgrantees have provided unallowable or potentially unallowable WAP services:</p> <ul style="list-style-type: none"> ▪ One subgrantee provided weatherization services to an applicant even though the subgrantee had determined that the applicant's household was not income-eligible. The subgrantee spent \$2,469 | <p>Income eligibility is reviewed by Program Officers in connection with</p> | <p>Program Officers conduct onsite monitoring</p> | <p>Modification to the monitoring instrument will require</p> |

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| <p>in weatherization services for this household.</p> <p>This subgrantee also spent \$2,475 to replace refrigerators in a multi-family dwelling without meeting documentation requirements to show that these replacements were allowable. Specifically, the subgrantee replaced refrigerators in five of the eight units in our sample, but there was no documentation explaining why those units were selected for refrigerator replacement.</p> <p>In addition, this subgrantee began weatherization work on three units in a multi-family dwelling before the energy audits had been completed. These three units received a total of \$2,060 in weatherization services.</p> <ul style="list-style-type: none"> ▪ Another subgrantee completed and paid for \$202,000 in weatherization work at a multi-family dwelling before it had completed individual energy audits on the units it weatherized. The files supporting this work included photocopies of a single, incomplete energy audit rather than the required energy audit for each unit. After the Department made inquiries related to our finding, it found energy audits for each unit. However, these energy audits were not in the files when we reviewed them. <p>This same subgrantee did not have any of residents in eight single-family dwellings sign the final inspection report signifying that the weatherization work was actually completed. In addition, in five of these cases, the required energy audits were not signed or dated, so there is no way to ensure that the audits were conducted before the weatherization work was done. These eight dwellings received a total of \$16,685 in weatherization services.</p> | <p>field visits as previously mentioned in Chapter 1B.</p> <p>Program officers review for compliance TDHCA WAP Policy Issuance 03-11.2 which requires the completion and retention of a "Refrigerator Replacement Form" prior to the replacement of a client refrigerator.</p> <p>Program Officers review for compliance with TDHCA WAP contract Section 9 which states that contractor shall comply with the record keeping requirements set forth in 10 CFR 440.24 and with such additional record keeping requirements specified by Department, which includes specified portions EASY Audit.</p> <p>Although the SAO did not locate the final approved energy audits in the files supporting the \$202,000 in weatherization work, the Department considers this more of a file maintenance concern. The approved audits supporting this weatherization work were subsequently located.</p> <p>The Program Officers reviews for Building Weatherization Reports that include certification of final inspection in connection with the review of record keeping</p> | <p>independently; at this time no onsite supervision is provided.</p> | <p>identification of all onsite documentation reviewed to ensure compliance with record keeping requirements. Documentation must be complete and found in client files at the time of the on-site review.</p> <p>Documentation subject to monitoring will be copied and returned to TDHCA for review by the Project Manager prior to the developing the monitoring report. The report will be review by the Program Manager and the Division Director, if appropriate. Documentation supporting monitoring results will be available for review by Managers and Directors on a sample basis and as needed.</p> <p>TDHCA is in the process of analyzing the conditions noted by the SAO and will recoup all WAP funds determined to be disallowed.</p> |

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| <p>Furthermore, the Department does not ensure that subgrantees' contracts provide cost-effective and allowable weatherization services. It does not provide guidance to WAP subgrantees regarding their contracts with weatherization contractors. As a result, we found the following in our audits of three WAP subgrantees:</p> <ul style="list-style-type: none"> ▪ The Department does not ensure that subgrantees' contracts have provisions to ensure that the subgrantees pay contractors reasonable prices for weatherization services. One subgrantee had three contracts that did not include price lists for materials and labor. These contracts also lacked provisions allowing the subgrantee to review the contractors' actual receipts for the purchase of materials, which was important because the cost of the materials in these contracts was the basis of the payment. The absence of provisions to view the contractor's receipts left the subgrantee unable to verify whether it reimbursed the contractor for its actual costs. <p>This same subgrantee also amended three weatherization contracts that had already expired. One amendment increased what the subgrantee would pay for labor from 65 percent of the cost of materials to 80 percent of the cost of materials.</p> <ul style="list-style-type: none"> ▪ The Department does not ensure that subgrantees' contracts adequately describe the scope of work weatherization contractors will perform. For example, one subgrantee contracted with a contractor to "weatherize all eligible dwelling units" for a flat rate. This contract did not contain a statement of work or a definition of the term "weatherize." As a result, the Department cannot ensure that the subgrantee holds the contractor accountable for its performance. | <p>TDHCA WAP Contract Section 14 requires compliance with WAP Policy Issuance 02-10.2 that addresses all facets of the procurement process. During on-site monitoring visits, the Program Officers review all procurement documentation and complete the portion of the monitoring instrument to document the existence of the documents and to assure compliance.</p> <p>TDHCA WAP Contract Section 14 requires compliance with WAP Policy Issuance 02-10.2 that addresses all facets of the procurement process. Program Officers at the time of the onsite monitoring are to review all procurement documentation and complete the portion of the instrument to document the existence of the documents and to assure compliance.</p> | <p>Project Manager and Program Manager review reports complied by Program Officers as a result of onsite reviews.</p> | <p>At the June 2003 Energy Conference sponsored by the Energy Assistance Section, Susan White, who has a national reputation as a trainer, presented two sessions regarding Procurement as outline in WAP policy issuance 02-10.2.</p> <p>Modification to the monitoring instrument will require identifying all onsite documentation reviewed to ensure compliance with record keeping requirements. Documentation must be complete and available at the time of the onsite monitoring review.</p> <p>A copy of the documentation will be returned to TDHCA for review by the Project Manager prior to the developing the monitoring report. The report will be reviewed by the Program Manager and the Division Director, as appropriate. Documentation supporting monitoring results will be available for review by Managers and Directors on a sample basis and as needed.</p> |
| Chapter 1-D | | | |

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| The Department's Monitoring of WAP, CEAP, and CSBG Subgrantees Does Not Ensure That Subgrantees Provide Allowable Services To Eligible People | | | |
| <p>The WAP, CEAP, and CSBG Programs Close Their Monitoring Processes Prematurely The WAP, CEAP, and CSBG programs close their monitoring processes without ensuring that subgrantees have addressed the issues identified during monitoring. For example:</p> <ul style="list-style-type: none"> ▪ Two of the thirteen WAP subgrantees we tested did not respond to all the issues identified by the Department's monitors, but the monitors still closed the monitoring process at these subgrantees. Monitors noted that one of these subgrantees had incomplete files, performed inadequate inspections, and failed to sign the energy audits as required. The Department closed the monitoring process at this subgrantee by stating that the subgrantee's response was acceptable. The same issues still existed when we audited the subgrantee six months later. The Department paid this subgrantee \$832,521 in federal WAP funds for its 2001 and 2002 contract even though these issues remained unresolved. ▪ Two of the 13 CEAP subgrantees we tested did not respond to all of the issues that Department's monitors had identified, but the monitors still closed the monitoring process at these subgrantees. The Department allocated \$159,149 to one of these subgrantees while it continued to express its concerns about this subgrantee. ▪ Five of the seven CSBG monitoring files we reviewed included unresolved issues that the Department's monitors closed. For example, in 2002 the Department's monitors noted that one subgrantee's fiscal officer had sole signature authority, which increases the risk of fraud and abuse. According to the Department, this condition had been identified as an issue in each of the past five fiscal years. The Department paid this subgrantee \$875,333 in CSBG funds for its 2002 contract while this issue remained unresolved. | <p>The Texas Department of Housing and Community Affairs (TDHCA) monitor all Weatherization Assistance Program (WAP) and CEAP and CSBG subgrantees at least once a year for contract and federal program compliance. Training and Technical Assistance (T&TA) is provided to the subgrantees, as necessary during the monitoring process. Subsequent monitoring is conducted by assigned staff members to ensure that corrective actions are implemented. If a subgrantee continues to demonstrate deficiencies a team of TDHCA Program Officers may conduct an additional monitoring and provide additional T&TA as needed.</p> <p>TDHCA will not close issues identified during monitoring until the Department has verified that the issues have been corrected.</p> | | <p>All monitoring reports and responses will be reviewed by the Project Manager and Program Manager, prior to release to the subgrantee and the subgrantee board chair. All reports will be tracked and all findings will be logged for review in comparison to subgrantee response. Reports will not be closed until onsite verification or compliance with cited issues.</p> |

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| <p>WAP Monitors Do Not Always Identify Issues That Are Present When They Conduct Monitoring</p> <p>At two of the three WAP subgrantees we audited, we identified significant issues that were present at that time of the Department's monitoring but that the monitors did not report:</p> <ul style="list-style-type: none"> ▪ We determined that one subgrantee could not produce an entire set of employee time sheets for any month in the past year. However, the Department's monitors indicated that this subgrantee's time sheets substantiated expenditures that the Department reimbursed. The monitoring documentation did not specify what the monitors reviewed in this area. ▪ As discussed in Chapter 1-C, another subgrantee amended contracts with its weatherization contractor when those contracts had already expired. All but one of the subgrantee's contracts had expired at the time of the Department's last monitoring visit. However, the Department's monitor indicated that this subgrantee's contracts were adequate. The monitoring documentation did not specify which contracts were reviewed. | <p>Procedures were not in place to document specific information considered by Program Officers in performing their monitoring reviews. Without such documentation, the Department recognizes that it can not have an effective supervisory/quality control review process to ensure that staff performs as intended by management.</p> | <p>Procedures were not in place.</p> | <p>Modification to the monitoring instrument and protocol will require identification of all onsite documentation reviewed to ensure compliance. A copy of the documentation will be returned to TDHCA for review by the Project Manager to ensure the adequacy of the monitoring process.</p> |
| <p>Chapter 2-A The Department is Not Addressing the Unmet Need For Housing As It Relates to the Section 8 Program</p> | | | |
| <p>As Table 1 shows, at the end of program years 2001 and 2002, local operators had not awarded 213 (10 percent) and 247 (12 percent), respectively, of the Section 8 housing assistance vouchers available to them. According to HUD officials, the Department could use a variety of techniques to increase the number of vouchers it awards through local operators.</p> <p>While Section 8 rental assistance vouchers remain unused in certain areas, local operators maintain waiting lists containing the names of individuals who are waiting to receive vouchers. Although waiting lists cannot be used to measure all the unmet need for the Section 8 program, they do indicate that there is an unserved population. Waiting lists cannot be used to measure the unmet need in the state because names can be added to these lists only when the local operators open the lists. Therefore, the lists may be outdated and are not complete.</p> | <p>The Local Operator conducts application intake in the field office and sends applications to Regional Coordinator. The Regional Coordinator enters applicant information in the Genesis data system. The Program Coordinator reviews all new admissions, except portability, for verification of waiting list.</p> | <p>Program Manager maintains a log of random files selected for SEMAP review. The number of reviews is based on the number of vouchers in an area.</p> | <p>As of May 31, 2003, the Department has awarded 96% of the statewide housing vouchers, exceeding the HUD required lease up rate of 95%, by reallocating vouchers and adding a new city within the Ft. Worth Section 8 jurisdiction and, as of June 21, 2003, spent more than 90% of its funding. The Departments FY 2003 lease up percentage as reported by HUD is 92% as of May 31, 2003.</p> <p>The Department will coordinate with HUD to explore methods to increase</p> |

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| In addition to not awarding 12 percent of its Section 8 vouchers, the Department reports that it had did not spend \$830,000 (nearly 9 percent) of its federal Section 8 budget at the end of program year 2002. Federal rules for the Section 8 program require HUD to begin the process of reallocating funding from housing authorities that (1) award less than 90 percent of their vouchers and (2) fail to spend 90 percent of their funding. Therefore, the Department is close to having the conditions that would require HUD to begin reallocating its Section 8 funding. | | | <p>the percentage of Section 8 vouchers it awards.</p> <p>The Department talked with Fort Worth HUD on June 24, 2003. They are requesting guidance from their legal office on moving vouchers from one HUD jurisdiction to another.</p> <p>The Department maintains the waiting list as of May 1, 2003 to ensure utilization of Section 8 vouchers.</p> |
| Chapter 2-B The Department Cannot Ensure that Local Operators Award Section 8 Vouchers to Families in the Required Order | | | |
| Federal guidelines and Department policy require that local operators award available Section 8 vouchers to families in the order in which the families' names appear on the Section 8 waiting lists. However, the Department does not require local operators to submit documentation indicating that they are doing this. Although the Department has access to the current waiting lists for each local operator, those waiting lists do not specify when families received vouchers or whether families did not receive vouchers for legitimate reasons. This means that the Department cannot determine that the local operator awarded the vouchers in the required order. | The Local Operator conducts application intake in the field office and sends applications to Regional Coordinator. The Regional Coordinator enters applicant information in the Genesis data system. The Program Coordinator reviews all new admissions, except portability, for verification of waiting list. | Program Manager maintains a log of random files selected for SEMAP review. | As of May 1, 2003, the Department has implemented a new waiting list procedure that will allow the Department to verify whether local housing assistance program (HAP) operators award vouchers to the individuals who have waited the longest to receive them. The Department now maintains the waiting lists for all its Section 8 local HAP operators on an Excel spreadsheet. The Regional Coordinator inputs applicant information in the Excel spreadsheet and notifies applicants on a first-come, first-serve basis, in writing, of the date and time to meet with the local HAP operator for |

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| | | | completion of eligibility paperwork. |
| Chapter 2-C Although the Department Has Made Some Progress, It has not Fully Corrected Several Section 8 Noncompliance Issues Identified by HUD and an External Auditor | | | |
| <p>Although it has made some progress, the Department has not fully corrected several Section 8 noncompliance issues. These issues were identified in two separate reviews conducted in 2000 (HUD conducted a management review and required the Department to hire an external auditor to conduct a program specific audit of Section 8. Both reviews covered the same time period and identified similar problems. Continued noncompliance could put the Department at risk of losing its Section 8 funding.</p> <p>Although the Department has not complied with all Section 8 requirements, it has instituted the quality control reinspection program that HUD required. In general, noncompliance still remains in the following areas in the Section 8 program:</p> | The local operator submits contract file to TDHCA. Regional Coordinator reviews and recalculate file. | Program Coordinator reviews for final approval. | <p>To fully correct previously noted Section 8 noncompliance issues, the Department:</p> <ul style="list-style-type: none"> • Now maintains the waiting lists for all program operators and ensures that all required elements on Section 8 waiting lists are complete. • Developed a quality control checklist form that is used in the contract review process to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that vouchers may be available to them. • Revised the contract review process to ensure that Section 8 rent reasonableness is adequately tested and documented. • Disposed of all old versions of the Section 8 |

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| | | | <p>lease addendum form which are no longer available to staff or local operators, and reviewed Section 8 files to ensure that they do not include incorrect or obsolete forms.</p> <ul style="list-style-type: none"> • Has submitted in November of 2002 and received approval of the exception on July 10, 2003. The Department will explore implementing a model FSS program in Brazoria County. |
| <ul style="list-style-type: none"> ▪ Waiting list administration | The Regional Coordinator enters applicant information in the Genesis data system. The Program Coordinator reviews all new admissions, except portability, for verification of waiting list. | Program Manager maintains a log of random files selected for SEMAP review. | As of May 1, 2003, the Department maintains waiting list all program operators and ensures that all required elements on Section 8 waiting list are complete. |
| <ul style="list-style-type: none"> ▪ Determination of rent reasonableness | A guideline for conducting rent reasonableness which can be found in Appendix 4 of the Administrative Plan. | The Program Manager maintains a log of random files selected for SEMAP review. The sample size is based on HUD SEMAP requirement. | The Department and implemented written procedures to ensure that rent paid to property owners is reasonable and a contract review process to ensure that Section 8 rent reasonableness is adequately tested and documented. |
| <ul style="list-style-type: none"> ▪ Documentation of required information | Contract files are submitted to Section 8 from the Local Operator and distributed to the Regional Coordinator. An Internal HAP (Housing Assistance Program) | The Program Coordinator reviews for approval. | The Department developed a quality control checklist form in January 2003 that is used in the contract review process to ensure that Section 8 tenant files contain |

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| | Routing Sheet checklist which documents contract information regarding the date of receipt, start date, date entered, date forwarded, missing documentation and Supervisor review is included with contract file. Regional Coordinator reviews and approves contract file. Regional Coordinator completes a SEMAP (Section Eight Management Assessment Program) quality control checklist | | all required documents. |
| <ul style="list-style-type: none"> ▪ Use of correct lease addendum forms | Routing sheet checklist which documents all required forms is received from the Local Operator. | | Implemented the Quality Control form 1/28/2003. Additionally, disposed of all versions of the Section 8 lease addendum forms which are no longer available to staff or local operators, and reviewed Section 8 files to ensure that they do not include incorrect or obsolete forms. |
| <ul style="list-style-type: none"> ▪ Implementation of a family self-sufficiency program | The Department submitted letters requesting an exception of the FSS Program to San Antonio and Fort Worth Offices in November 2002. Additionally, the Department submitted a draft of the FSS Action Plan requesting that implementation of a model program in Brazoria County, using the Brazoria County Local Operator, be approved to serve as the model in fulfilling the FSS requirement of the mandatory size for all three (3) HUD service regions. | | Letter from HUD approving exception request was received by Department 7/10/2003. |
| <ul style="list-style-type: none"> ▪ Annual re-examination of family income | Contract must be renewed on an annual basis. Local Operator conducts the reexamination. | The Program Coordinator reviews for final approval. | Implemented an annual file review to re-examine family income for each Section 8 participant. |

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| | The reexamination file is re-certified and completed for payment by the Regional Coordinator. | | Appendix 3, Annual Contract Renewal Procedure, is in the Administrative Plan. |
| <ul style="list-style-type: none"> ▪ Supervisory and review processes | All contracts are reviewed by the Program Coordinator and Regional Coordinators. | All contracts are reviewed by the Program Manager. | Implemented Quality Control Checklist 1/28/2003 and is currently using the checklist to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that voucher may be available to them. The form has been added to the contract review process. The form includes review and verification of income, allowances for expenses, utility allowances, tenant rent calculations, unit inspection, and rent reasonableness. Also, for new admissions, the Department has implemented a review of income limits, selection from the waiting list, letter of notification and voucher certification. The Regional Coordinator will complete this form for new admissions, annual renewals, interim rent adjustments, and moves to other units. Upon completion, the Regional Coordinator places the form in the contract file for final review and approval by the Section 8 Coordinator/Manager who will conduct detailed review. |
| Chapter 3-A The Department Has Not Made Cost-Effective Decisions Regarding its Energy Audit Software, and Weaknesses in This | | | |

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| Software Can Affect Eligibility Determination | | | |
| The Department requires its WAP subgrantees to use a specific energy audit software called Easy Audit, but it has not made cost-effective decisions regarding this software. | <p>While a formal cost/benefit analysis was not performed, the DOE energy audit software (NEAT) is not suitable for use in Texas since it does not address multi-family and manufactured housing and is not considered effective for use in evaluating cooling measures in warm climate states.</p> <p>TDHCA developed the EASY Audit with input from DOE. TDHCA submitted the original EASY Audit and all revisions to DOE for review and approval.</p> <p>TDHCA received approval from DOE on January 9, 2002 for use of the EASY Audit as an alternative audit as allowed in 10 CFR 440.21 and approved the expenditure of program funds for the EASY Audit via approval of DOE State Plan.</p> <p>The development of the EASY Audit was obtained through a sealed bid procurement effort.</p> <p>Nine bids were received. Five bids were disqualified. The remaining four qualified bidders were scored and ranked using criteria that included Price, Technical Resources, and Past Performance.</p> <p>Scores were sent to the TDHCA Purchasing Department for review</p> | TDHCA followed State established procurement process to obtain a vendor for the EASY Audit. The initial procurement process was approved after review by the Department's purchasing section. EASY Audit was approved by DOE after multiple reviews within the DOE. All modifications have been approved by DOE and all additional cost to modify EASY Audit have been included in the State Plans submitted to DOE, which has been approved. | |

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| | <p>and processing on March 27, 1995.</p> <p>The project was completed and approved by the Department of Energy on March 10, 1995</p> <p>TDHCA anticipating DOE Program Notice 02-4 released in May 2002, which mandates that states have their energy audit re-approved every five years, submitted EASY Audit for re-approval. Modifications were needed to meet the new DOE standards. On January 9, 2002 DOE approved the use EASY for an additional 5 years.</p> | | |
| <p>Although Free Energy Audit Software Is Available, the Department Paid a Vendor \$232,000 To Develop Energy Audit Software and Is Spending an Additional \$240,000 To Upgrade That Software</p> <p>The U.S. Department of Energy has developed an energy audit software application that it makes available to states at no charge. However, the Department does not use this software but uses another software package called Easy Audit instead.</p> <p>The Department has paid approximately \$232,000 to the Easy Audit vendor since 1995. Although the Department paid for the development of Easy Audit, it does not own the source code for this software. Instead, the vendor owns it and can sell it to other states. While it is not a specific requirement that an agency own the source code for a software application it paid to develop, it is a good policy for an agency to do so.</p> <p>The Department also is paying \$240,000 to the original developer of Easy Audit to upgrade the software. By not owning the source code for Easy Audit, the Department has effectively limited itself to a sole-source contract for any future upgrades to this software. The original developer would have to only write the code to upgrade the software,</p> | <p>See previous comments relating to the Department's efforts to work closely with the Department of Energy to ensure proper approval of the Easy Audit software.</p> <p>See previous comments relating to procurement of Easy Audit to ensure the software was obtained at a reasonable price.</p> <p>While DOE approved the purchase of Easy Audit and TDHCA complied with established procurement procedures, TDHCA did not stipulate source code ownership in the development of the EASY audit. In the future, TDHCA will negotiate for</p> | <p>See previous comments relating to the Department's efforts.</p> | <p>TDHCA has sought and obtained information regarding other states that use an alternative audit and the basis for their decision to use an alternative audit. This information is attached as Attachment B.</p> |

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| but any independent developer would have to start from the beginning and re-create the software before upgrading it. | source code ownership in software development projects that it fully funds. | | |
| <p>Weaknesses in the Department's Energy Audit Software Limit Its Reliability and Effectiveness</p> <p>The U.S. Department of Energy approved the Department's use of Easy Audit, but with several restrictions. These restrictions limit the use of Easy Audit to single-family dwellings and small multi-family dwellings. The U.S. Department of Energy also identified several inaccuracies in the way Easy Audit computes several values. These values could lead to incorrect decisions regarding which weatherization services, if any, should be performed.</p> <p>We also identified other vulnerabilities in Easy Audit that limit its reliability and effectiveness. It is unclear whether the Easy Audit upgrade the Department has contracted for will address these weaknesses:</p> <ul style="list-style-type: none"> ▪ The Department cannot ensure that the dwellings the subgrantees weatherized were eligible to receive weatherization services because (1) electronic versions of the energy audit files that Easy Audit produces are not always accessible and (2) the hard copies of these files do not display all the information necessary to determine which weatherization measures to provide. ▪ Easy Audit uses default numbers for some costs and efficiency ratios that could lead to incorrect decisions regarding program eligibility determination and whether to perform certain weatherization services. | The Department recognizes DOE's restrictions on the use of Easy Audit and operates within those restrictions. | | The proposed modification to the EASY audit to a web based format will resolve the issue of the existence of audits and the maintenance of a back up disc, access to audit files, display of audit data. The calculation of values and all default parameters were reviewed and approved by the DOE, the Department is removing the default settings which could be inappropriately used in conducting and energy audit. |
| <p>Chapter 3-B</p> <p>Certain Information Technology Weaknesses at the Department Limit the Security and Integrity of Information</p> | | | |
| <p>Genesis Does Not Consistently Maintain Electronic Signatures On Electronic Contracts To Provide Program Services</p> <p>We tested for electronic signatures on 12 electronic contracts totaling \$10 million. Subgrantee signatures were missing from all of these 12 contracts, and the Department's executive director's signature was missing from 4 of them. The Department does not maintain hard copies of the contracts that it maintains electronically. The absence of a valid signature could make it more difficult for the Department to</p> | The Department maintains off-site tape backups of all servers to recover lost or deleted data. The retention policy for backups is one year prior to the current fiscal year end. Information Systems Division staff restored a full copy of contract signature records from September 1, | TDHCA's Information Systems Division maintains and follows procedures for testing the recovery of system files from off-site tape backups. | The Department will ensure that it has valid contracts with subgrantees by contacting affected subgrantees, communicating the problem, and having appropriate TDHCA staff and subgrantees electronically re-sign these contracts. Since January 2003, |

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| hold a subgrantee accountable for adhering to the terms of the contract. | 2001, but signatures were missing from contracts since at least that date. | | TDHCA technical staff has established and monitored an automated, scheduled report on electronic signatures for all Community Affairs programs to ensure additional electronic signatures are not deleted from existing or new contracts. Target Date for Completion: January 1, 2004 |
| The Department Lacks An Alternative Site Agreement To Run Its Software Applications In The Event Of A Disaster Although the Department maintains backup tapes of its software applications and program data, it does not have an alternative site agreement through which it would have hardware to run its applications in the event of a disaster. The Texas Administrative Code, Title 1, Section 202.6, requires state agencies to plan for a disaster so that the effects will be minimized and agencies will “be able to either maintain or quickly resume mission-critical functions.” | TDHCA maintains a business continuity plan (updated in October 2002) to prepare for the effects of a disaster and to comply with TAC, Title 1, Section 202.6; however, the costs of having a dedicated, alternative site agreement are prohibitive. TDHCA’s capital budget for fiscal years 2004-2005 totals \$1,080,000; the agency’s 2002-2003 capital budget totaled \$2,260,760. Requirements for new and continued IT projects and services have not decreased proportionally to the decrease in the capital budget. The business continuity plan includes the contact information for the hardware and software vendors that the Department would need to call for support and to order replacement hardware. The Department has annual support and maintenance contracts for its major hardware and software components. | The business continuity plan defines the general steps taken to test the plan by performing a structured walk through of the plan. | Despite the capital budget reduction, TDHCA has set aside \$15,000 each year to increase its disaster preparedness for fiscal years 2004-2005. During the next biennium, the agency plans to acquire, at a minimum, an insurance policy to ensure a set turnaround time on selected network hardware. Using its offsite backup tapes, TDHCA would have the ability to restore mission-critical systems, according to the priority sequence defined in the agency business continuity plan. In the event of a disaster that destroys the agency's server room but not the entire headquarters building, TDHCA would be able to resume mission-critical functions in a reasonable time frame through the combination of an insurance policy and off-site backup tapes. The agency will continue to explore options for securing an alternative site agreement, as well |

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| | | | as identifying funding for such an agreement; however, it is possible that TDHCA will not be able to fully satisfy this audit finding in the next biennium. |
| <p>Controls to Ensure the Consistency of Data in Genesis and the Department's Internal Accounting System are Not Adequate Genesis (the Department's automated system that stores financial and performance information for program) contains inaccurate data. This is because Department users change the information in the Client Server Accounting System (CSAS, the Department's internal accounting system) but are not required to make the same changes to the information in Genesis.</p> | <p>The Community Services Contract Specialist maintains copies of reports submitted and spreadsheets of expenditures and reimbursements for all CS contracts. All contract expenses are reconciled with accounting manually on an annual basis; however, this process may be performed at any time during the year. All contract changes are initiated in the Genesis system.</p> <p>A similar process is followed in Energy Assistance. On a monthly basis performance reports are received, reviewed, and then processed. They are then forwarded to accounting for payment. At the end of each program year a final report is submitted by each subgrantee. Each report is reconciled with accounting. In addition to any issues addressed throughout the normal program year, if any expenditure or compliance issues arise they are addressed. A closeout spreadsheet is used.</p> | <p>Contract specialists are responsible for conducting accurate record reconciliation with accounting. Program managers are responsible for initiating the annual reconciliation process.</p> | <p>To ensure that decisions are made based on accurate information, the Department will have the 1) information systems technical staff prepare a briefing for program staff on the details and limits of the automated interface from the Client Service Accounting System (the Department's internal accounting system) to the Genesis Energy Assistance/Community Services contract and payment systems, 2) affected staff specifically identify and document data that is manually maintained in the two systems, and 3) technical staff develop monthly reports to assist program staff in the development of a formal reconciliation process.</p> <p>Target Date for Completion: January 1, 2004</p> |
| <p>Information in the ESGP Monitoring Tracking System is Not Accurate The Department's tracking data for its ESGP monitoring visits is not accurate. We found that this data erroneously specified that the Department had conducted four ESGP monitoring visits that it had not actually conducted. These four associated grant recipients</p> | <p>Announcement letters had been mailed to four ESGP contractors notifying them that an on-site monitoring review had been</p> | <p>The Project Manager for Monitoring and Technical Assistance makes program officer</p> | <p>The Community Services Monitoring Tracking Log will be reviewed and updated by the Project Manager on a weekly</p> |

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| received a total of \$340,185 in 2002. | scheduled. Due to unexpected injury that occurred to the assigned program officer, the reviews did not occur on the date originally specified in the announcement letter. The monitoring files for the contractors in question and the monitoring log were not updated at the time of the SAO review. | assignments and supervises on-site monitoring activities. The Community Services Manager provides supervisory oversight to the Project Manager. | basis. A column has been added to the Tracking Log that will allow monitoring announcement letters to be revised as necessary as a result of unexpected delays from the original scheduled date of the monitoring review. Target Date for Completion: January 1, 2004 |
| Chapter 3-C Information Technology Weaknesses at Subgrantees Limit The Department's Ability To Safeguard Information | | | |
| <p>The Department requires subgrantees to maintain complete and accurate financial and performance data. However, it does not monitor subgrantees' controls or provide subgrantees with technical assistance regarding the adequacy of controls over information that they maintain electronically.</p> <p>We noted that some subgrantees' IT controls are not always adequate to ensure that the information that they report is safeguarded. For example:</p> <ul style="list-style-type: none"> ▪ The accountant for one ESGP grant recipient reported that she maintained the grant recipient's accounting information on a computer at her residence and performed monthly back-ups. ▪ One subgrantee backed up its client tracking system files regularly, but it physically stored the backup disk next to the computer. Therefore, a fire or other physical disaster would have destroyed both the current data on the computer and the backup disk. | At the time of the audit the Department did backup and secure all data entered by subgrantees into TDHCA systems, and the Department provided phone and email support on the use of TDHCA systems. The Department does not currently monitor or provide technical assistance on safeguarding subgrantees' internal systems and files. Although Texas Administrative Code, Title 1, Part Chapter 202 contains no specific requirement that state agencies provide contractors with assistance in their internal IT practices, the Department will address this audit recommendation as stated in "Other Comments...". | TDHCA's Information Systems Division maintains and follows procedures for testing the recovery of system files from off-site tape backups. ISD also performs periodic network security assessments and subscribes to state and commercial security-related email lists to ensure network hardware is patched with the latest security updates. | The Department will provide subgrantees with technical assistance regarding IT system controls to ensure that subgrantees maintain the integrity of and adequately safeguard information. By October 2003, TDHCA will publish a document on required IT practices for agency subgrantees on the TDHCA website and will announce the document's publication through standard communication channels with subgrantees. After a specified date for compliance with the IT practices, TDHCA program monitors will include an audit on IT practices as a standard aspect of their site visits. Target Date for Completion: October 31, 2004 |
| Chapter 4-A The Department Does Not Ensure That WAP Subgrantees Target | | | |

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| | To Ensure Compliance Related to / Protect Against Audit Condition Noted | To Ensure Adequate Supervision/Quality Control | |
| Weatherization Services to Established Priority Populations | | | |
| <p>The Department does not ensure that WAP subgrantees target weatherization services to the priority populations that the U.S. Department of Energy, one of the program's funding sources, has established.</p> <p>Subgrantees submit monthly reports on how many elderly individuals, disabled individuals, and families with children have received weatherization services. However, reporting this information does not ensure that subgrantees have actually targeted the priority populations. For example, one subgrantee considered only income eligibility in the WAP application approval process and provided services strictly on a first come/first serve basis.</p> <p>In addition, although the Department's annual state weatherization plan specifies that it will give priority to the federal priority populations, its contracts with subgrantees do not list two priority populations - high residential energy users and households with a high energy burdens. The Department does not monitor to ensure that its subgrantees are indeed targeting priority populations.</p> | <p>The TDHCA WAP contract requires subgrantees to develop and implement the WAP program with priority to the elderly, persons with disabilities and/or households with young children under the age of 6. The five (5) targeted priority populations identified in 10 CFR 440.16 are enumerated in the DOE State Plan in Section 1 Eligible Population, 1.3 Priorities. Three of the five identified populations are listed in the current weatherization contract Section 2. Contractor Performance.</p> <p>Although the Department does not have formal procedures to ensure that target populations receive priority, during the annual monitoring visit Department staff analyze the programmatic reports to identify priority populations that are not receiving services through the subgrantee. Each month as the reports are filed, the Contract Specialist look over the reported figures to determine if all area targeted populations are receiving benefits. If the priority populations are not being served, the subrecipient is requested an explanation and is informed to concentrate on those populations in the monitoring reports.</p> | <p>Program Officers inform the Project Manager of the undeserving of target priority populations that are noted during the annual monitoring visit. Additionally, on a monthly basis, the Contract Specialist evaluates the expenditures of the subgrantee and looks for target priority populations that are under served. If a priority population appears to be underserved, the Program Officers notify the Project Manager to initiate a request for explanation.</p> | <p>When implemented, the new EASY audit which will be web based will rank applicants by their priority status. Deviations from the prioritized list will be questioned during the monitoring visit.</p> <p>When implemented the Easy audit system will utilize scoring factors to elevate the 5 targeted populations in 10 CFR 440.16. Additionally, the Contract Specialists will review monthly reports to verify the targeted populations are being reached.</p> <p>Contract boilerplates will be revised to show all five (5) priority populations in Section 2. Contractor Performance.</p> <p>Future weatherization contracts will list all five (5) priority populations listed in 10 CFR 440.16 in Section 2. Contractor Performance</p> |

**State Auditors Report dated June 2003, *Selected Assistance Programs at the Department of Housing and Community Affairs*
Analysis of Audit Conditions Noted and Department's Response**

| Summary of Audit Condition & Recommendation | TDHCA Controls/Procedures in Place at time of Audit | | Other Comments, including Department Actions Taken or Planned ¹ |
|--|--|---|---|
| | To Ensure Compliance Related to / Protect Against Audit Condition Noted | To Ensure Adequate Supervision/Quality Control | |
| <p>Chapter 4-B The Department Lacks a Policy to Preclude ESGP Subgrantees from Approving Their Own Grant Awards</p> <p>The Department lacks a policy to preclude subgrantees from approving their own ESGP grant awards. As a result, one ESGP grant recipient both received ESGP funds and served on the Department's review committee to award ESGP funds. The Department awarded this grant recipient \$40,000 in fiscal year 2002. Although the Department asserts that this grant recipient did not review its own application, the Department did not maintain adequate documentation to support this assertion.</p> | <p>ESGP funds are awarded on a competitive basis to units of local general government and private non-profit organizations. The Department solicits volunteers from the outside to assist with the review and scoring of applications. In accordance with HUD regulations, the Department awards one statewide ESGP grant to an organization to provide technical assistance as necessary to other organizations applying for other federal funds to the homeless population. An organization that provides this statewide technical assistance also volunteers to review applications. Although a formal written policy or standard operating procedures was not in place to ensure no conflict of interest, representatives from the organization that provides statewide technical assistance do not review the statewide applications submitted by that entity, the only entity that submits a statewide application.. No other ESGP organizations that submit applications for funding serve on the review teams.</p> | <p>The Project Manager for Planning and Contract Implementation assigns Department staff and outside volunteers to teams to review ESGP applications. The project manager also assigns each team a specific number of applications for review. Teams are assigned to regions of the state from which applications are received.</p> <p>The Community Services Manager and Director of the Community Affairs Division review the team assignments before the application process begins and the results of the team's evaluations.</p> | <p>The Community Services Section developed a written SOP titled <u>ESGP Statewide Technical Assistance Application Review Process</u>. The Policy states that no organization with a direct interest in ESGP funding decisions for a particular region of the state will participate in the review process for that region, nor will an applicant for the statewide TA contract review applications for the statewide TA contract.</p> |

Texas Department of Housing and Community Affairs
Response to State Auditors Report dated June 2003
Alternative Audits to the National Energy Audit (NEAT)

| State | Contact Name | Name of Alternative Audit. Who developed the Audit | Reason for not selecting NEAT as the prescribed Energy Audit | Cost to Develop an Alternative Audit and ongoing maintenance | Ownership of the Source Code of the Energy Audit |
|--------------|--------------------------------|--|--|---|---|
| Alaska | Mimi Burbage | AKWarm Contracted out for development | NEAT too Generic. NEAT is not house specific. NEAT originally did not print out work orders | Unknown. Records archived. | Unknown |
| Colorado | Russ Shaber | TAP-used in house expertise to build. Used in house expertise | NEAT originally used in 95 and, found NEAT too Generic in 90% of the homes in State. NEAT is not house specific. | Unknown. Developed in house back in 1995. | Audit completed in EXCEL. Not Applicable |
| Idaho | | EA-3 Contracted out for development | NEAT too Generic. NEAT is not house specific. | Unknown development cost. \$24,000 a year maintenance cost. | Audit completed in EXCEL. Not Applicable |
| Illinois | Benjamin Moore/ Eddie Haber | Audit Name not Given. Illinois Energy Audit Contracted out for development | NEAT too Generic. NEAT is not house specific. NEAT originally could not print out work orders. NEAT can not be integrated with LIHEAP. | Over 1,000,000 since 1988. Will go to web based next year. | Yes |
| Maine | Peter Wintel | MEADOW 96 Unknown Development | NEAT too Generic. NEAT is not house specific. NEAT originally did not print out work order. | Development unknown, completed in 1996. \$20,000 per year for upgrades. | No |
| Montana | Kane Quenaman | Montana Audit On Lotus 123 Unknown development | NEAT too Generic. NEAT is not house specific. Plan to go Web based in order to track LIHEAP clients. | Developmental stage \$260,000 for web based. | Not applicable |

Texas Department of Housing and Community Affairs
Response to State Auditors Report dated June 2003
Alternative Audits to the National Energy Audit (NEAT)

| State | Contact Name | Name of Alternative Audit | Reason for not selecting NEAT as the prescribed Energy Audit | Cost to Develop an Alternative Audit and ongoing maintenance | Ownership of the Source Code of the Energy Audit |
|--------------|--------------|--|---|---|--|
| Nevada | Craig Davis | REM Design Contracted out for development | NEAT too Generic. NEAT is not house specific. Originally found not to address cooling. NEAT does not address real world situations. | Still making improvements and anticipate completing refinements to the audit recommendations within the next two months. The total cost of developing the priority lists (which are linked to each measure for each household in each area of the state) is approximately \$65,000. | Unknown |
| New York | Tom Carey | TIPS for single family. Contracted out for development EQUIP for multifamily Unknown | TIPS is more flexible than NEAT, and results in more efficient use of WAP funds. It gives guidance to the auditor on which measures will result in higher savings-to-investment ratios without dictating a workscope. | Developmental costs \$250,000. Maintenance minimal. Considering TREAT as new alternative Audit | TIP Yes EQUIP NO |
| North Dakota | Howard Sage | Locally developed program call WXEOR Evaluating the use of SMOCERS program for possible use in the future. | NEAT too Generic. NEAT is not house specific. NEAT does not allow the auditors flexibility to input what they are really finding in the field. Originally found NEAT did not print out work orders or client information. NEAT does not integrate with LIHEAP, which is why they plan to go to SMOCERS. | The cost for the WXEOR was about \$10,000 in training and development. The SMOCERS will cost approximately \$34,000, but the program will replace not only the audit but also the inventory management system, reporting system and production tracking system. | WXEOR yes SMOCERS No |
| Oregon | Jack Hruska | REM Rate Outside development/ | NEAT too Generic. NEAT is not house specific. NEAT is not Web based compatible. | \$10,000 a year for license Current audit system (REM/Rate) is not web based. Training cost was around \$15,000. Looking at a web based system of data collection which will run about \$45,000 just to pilot. | No |

Texas Department of Housing and Community Affairs

*Historical Performance of Subrecipients
Reviewed in Connection with SAO Audit*

Texas Department of Housing and Community Affairs

*Greater East Texas Community Action Program
Historical Performance*

***Texas Department of Housing and Community Affairs
Management's Analysis and Evaluation of Performance of
Greater East Texas Community Action Program (GETCAP)***

The Texas Department of Housing and Community Affairs (TDHCA) has reviewed the single audits for 2000 and 2001, a summary of work completed, and results of monitoring reports for GETCAP for the last 3 years to evaluate the current status of GETCAP with regard to continuation of current contracts with TDHCA.

TDHCA Community Affairs Division management reviewed the single audit reports from the Portfolio Management and Compliance (PMC) Division for 2000 and 2001. The PMC reports cite all Reportable Conditions (RCs) and Material Weaknesses (MWs). PMC reported no RCs or MWs at GETCAP for the two year period. Two issues listed in the PMC report indicated GETCAP's failure to report an inventory of air conditioners on its financial statement in 2000 and 2001 and possible inter-fund borrowing in 2000 and 2001. TDHCA will require GETCAP to include any inventory in all future financial statements and is researching the possibility of requiring GETCAP to maintain separate checking accounts for each contract with TDHCA.

Review of the summary of work completed by GETCAP for 2000, 2001 and 2002 indicates that GETCAP has weatherized 1,123 units, which were at or below 125% of poverty, in that time period with DOE and LIHEAP Weatherization funds. GETCAP weatherized 832 homes which were at or below 100% of the poverty income guidelines during the three year period. The maximum number of units weatherized was in 2002 with a total of 409 homes, the minimum was 310 homes in 2000. GETCAP expended 99.9% of DOE funds in 2000 and 96.6% of LIHEAP funds. In 2001 and 2002 which was a unique two year contract GETCAP expended 91.7% of DOE funds and 80.2% of the LIHEAP funds.

Evaluation of the prior three years monitorings visits indicate the following:

- Issues related to client files have been cited in all three years, with the most significant issues cited in the 2001/2002 program year;
- GETCAP was cited for issues related to the installation of weatherization material in compliance with the Texas Material Installation Standards Manual in all three years reviewed;
- GETCAP was cited for issues related to the EASY audit for the previous three years;
- GETCAP was cited for inadequate final inspections in the last three monitoring reports; and
- GETCAP was cited for non-compliance with Procurement requirements which resulted in disallowed cost in the final monitoring.

TDHCA remains seriously concerned regarding the WAP management at Greater East Texas Community Action Program (GETCAP). Production and expenditures in the LIHEAP/WAP contract for program year 2002 were less than the 85% compliance requirement. A new WAP coordinator has been hired following the resignation of the previous coordinator. During the week of July 21, 2003, Energy Assistance trainers provided the second weatherization training for GETCAP's weatherization staff since January 2003.

On May 23, 2003 TDHCA sent a Summary weatherization report to GETCAP. A response was due June 23, 2003 and is now delinquent. GETCAP was directed to conduct a competitive solicitation process prior to initiating program year 2003 work. The Energy Assistance Section is concerned with the level of program knowledge of weatherization staff and the lack of timely responses to monitoring issues. TDHCA plans to continue to closely monitor GETCAP and continue to provide training. If significant improvements of program performance and management do not occur, the Department will act to terminate the weatherization contracts.

Greater East Texas Community Action Program

PY 2000 - 2003 Programmatic Summary of Work Completed

| | DOE/Weatherization Assistance Program | | | | LIHEAP/Weatherization Assistance | | |
|-------------------------------|---------------------------------------|-----------------------------------|------------------|--|----------------------------------|------------|---------------|
| | 2000 | 2001* | 2002 | | 2000 | 2001* | 2002 |
| Units Weatherized | 139 | 299 | 259 | | 171 | 105 | 150 |
| Total funds awarded | \$ 184,623 | \$ 601,193 | \$ 1,067,627 | | \$ 293,869 | \$ 491,868 | \$ 491,868 |
| Percent expended | 99.90% | 73.80% | 91.70% | | 96.60% | 42.40% | 80.20% |
| Services Provided to: | | | | | | | |
| Owner Occupied | 85 | 70 | 43 | | 147 | 83 | 15 |
| Renter | 54 | 202 | 183 | | 24 | 19 | 118 |
| Unoccupied Unit | 0 | 17 | 21 | | 0 | 1 | 5 |
| Over Income | 0 | 10 | 12 | | 0 | 2 | 12 |
| Shelters | 0 | 0 | 0 | | 0 | 0 | 0 |
| Total | 139 | 299 | 259 | | 171 | 105 | 150 |
| Poverty Levels Served: | | | | | | | |
| 0%-50% | 43 | 60 | 67 | | 29 | 10 | 42 |
| 51%-75% | 32 | 66 | 40 | | 35 | 20 | 19 |
| 76-100% | 36 | 82 | 80 | | 70 | 46 | 55 |
| 101%-125% | 26 | 61 | 33 | | 37 | 26 | 14 |
| 125%-150% | 1 | 17 | 18 | | 0 | 0 | 8 |
| Over 150% | 1 | 4 | 10 | | 0 | 0 | 11 |
| Unoccupied | 0 | 0 | 2 | | 0 | 1 | 0 |
| Over Income | 0 | 9 | 9 | | 0 | 2 | 1 |
| Total | 139 | 299 | 259 | | 171 | 105 | 150 |
| DOE | | 697 | Three Year Total | | | 426 | LIHEAP |
| | | Total number of Units Weatherized | | | | | |
| | | 1123 | | | | | |

*Lower than expected expenditure rate due to: (1) 1st year to administer the System Benefit Fund, (2) significant increase in funding as a result of 2 year WAP cycle, and (3) ramp up efforts necessary to meet significant increase in funding.

TDHCA accepted the Department of Energy option to conduct a two year program for the WAP contract. The contract began April 1, 2001 and terminated on March 31, 2003.

Greater East Texas Community Action Program

Definition of Finding and Recommended Improvement:

Findings are issues of non-compliance that results in a financial impact or detriment to the delivery of service in the program that may result in disallowed cost or contract action.

Recommended Improvements are program issues that require modification to assure compliance and may be used the first time an issue is identified that does not represent a financial impact or detriment to service delivery.

Weatherization Monitoring – PY 2003 **Monitoring visit January 13-17, 2003**

An onsite visit with 10 Energy Assistance Section staff was conducted January, 2003. Actions taken during the summary review included:

- A review of all 160 client files from Autumn Wood Apartments;
- On-site interviews 20 clients at Autumn Wood Apartments;
- On-site meetings with Autumn Wood Apartments management and maintenance;
- Review of all client files for Huntington Apartments and Groverton Apartments;
- Review of 30% of client files for the Livingston Apartments;
- On-site inspection of the Independence Manor project in progress; and
- Review of procurement records.

Review results:

The review found that of the 40 buildings reviewed in the Autumn Wood Apartment Project, one building was ineligible, 9 buildings had questionable eligibility and 30 buildings were eligible. TDHCA identified a list of the 9 buildings, which required additional action to document income levels in 32 apartments. Procurement record review revealed GETCAP was in non-compliance.

Actions Required:

- GETCAP was directed to obtain additional documentation to determine if the 9 buildings listed meet DOE eligibility requirements. GETCAP was directed to reimburse \$5,142.06 of DOE funds and \$3,807.77 of SWEPCO funds as a result of the determination of the ineligibility of the one building. GETCAP was directed to conduct a material cost analysis and proceed with competitive solicitations for labor and materials. GETCAP was directed to provide a written response to the review. A response was due June, 2003 and is now delinquent.

A monitoring report was issued in addition to the summary review and included the following:

Finding: GETCAP reported as complete before all WAP measures were installed.

Finding: GETCAP must reimburse disallowed cost related to trash/debris removal.

Finding: GETCAP failed to adhere to procurements standards established in Policy Issuance 02-10.2

Finding: GETCAP was cited for issues related to deficiencies with regards to obtaining client income documentation.

Finding: GETCAP was cited for inadequate final inspections.

Finding: GETCAP was cited for EASY Audit issues, including: incorrect data input, failure to sign audits, and the use of a rubber stamp to sign audits.

The response of the report is pending. Failure to address the findings and provide corrective actions as directed may result in disallowed cost and or contract actions.

Weatherization Monitoring – PY 2002
Monitoring visit April 15-19, 2002

Finding: Lack of adequate final inspections. All materials not installed as directed by the material installation standards manual.
Second consecutive year for finding.

Response: Agency has conducted follow-up training with staff stressing the importance of thorough final inspection. Program Coordinator will spot check staff final inspections.

Recommended Improvements: Some client files were incomplete lacking signatures. Some items installed were not listed on the BWR.

Response: R-values for existing attic insulation was not correctly inputted in the audit. Some CO readings were not inputted in the audit or the BWR.

Recommended Improvements: Additional training was provided staff on correctly calculating insulation R-value.

Response: Importance of inputting correct CO readings was stressed

Note: T&TA was provided on final inspections and proper usage of the blower door.

Closeout: While responses are acceptable, agency must ensure final inspections are thorough and program requirements are consistently met. Monitoring process was closed.
Responses are verified by Department staff during subsequent monitoring visits.

Weatherization Monitoring – PY 2001
Monitoring visit February 12-16, 2001

Finding: Client files were incomplete. Blower door data sheets and attic/wall /floor insulation inspection forms were incomplete. BWR form did not document work start and end dates. One unit was reported as complete before all materials had been installed.

Response: All required forms have been reviewed with staff stressing the importance of completing all forms. Only units completed and inspected will be eligible for payment.

Finding: Some attic and wall insulation listed on the BWR was not installed or was installed incorrectly.

Response: Staff met with contractors and required returns will be addressed at no cost to the program. Contractors will install materials previously charged to BWR but not installed.

Finding: Low production on TXU and SWEPCO contracts.

Response: At the time of the monitoring, GETCAP had expended all of the initial contract awards for TXU and SWEPCO.

Recommended Improvements: Charges to BWR (Building Weatherization Report) for labor and materials must parallel cost listed on EASY audit.

Response: Staff who conduct inspections received additional training and the Weatherization Coordinator will be doing spot checks behind the inspectors to see that work has been completed to satisfaction. Staff was also instructed to ensure that accurate measurements were properly inputted into the BWR.

Recommended Improvements: Program Coordinator must review inspectors' final inspections and provide additional training as needed.

Note: T&TA was provided on programmatic issues, EASY audit, assessments, R-values, MISM.

Closeout: All responses were acceptable and the monitoring process was closed. Responses are verified by Department staff during subsequent monitoring visits.

**Texas Department of Housing and Community Affairs
Results of Previous Three (3) Years Single Audits Performed on
Greater East Texas community Action Program**

Greater East Texas Community Action Program

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC)¹ /Material Weaknesses (MW)²/Questioned Costs Relating to TDHCA Programs | Department's Resolution/ Disposition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC)¹/Material Weaknesses (MW)²/Questioned Costs of Other Programs/Other Comments |
|--|---|---|--|
| Year Ended - 11/30/2002 | Audit certification received indicating a single audit would be performed. The Single Audit is due by 8/31/2003 | | |
| Year Ended - 11/30/2001 Financial Report – Unqualified Opinion Compliance for Major Programs – Unqualified Opinion Major Programs: <ul style="list-style-type: none"> ▪ CEAP ▪ LIHEAP ▪ Head Start ▪ Early Head Start Auditor classified agency as low risk. Type A vs. Type B Threshold - \$300,000 | None | N/A | Note to Financial Statements: <ul style="list-style-type: none"> ▪ TDHCA Air Conditioner / heating inventory not reported on financial statements. ▪ over/under funding of grants, essentially loans between programs, including TDHCA as follows: <ul style="list-style-type: none"> ▪ CSBG Over funded \$147,506 ▪ CEAP Over funded \$174,997 ▪ CEAP Administration Under funded \$9,578 ▪ LIHEAP WAP/EWAP Under funded \$133,876 ▪ DOE WAP/EWAP Over funded \$11,430 |
| Year Ended - 11/30/2000 Financial Report – Unqualified | None | Not Applicable (N/A) | Note to Financial Statements: <ul style="list-style-type: none"> ▪ TDHCA Air Conditioner / heating inventory not reported on financial |

¹ - Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect an organization's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants.

² - A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Results of Previous Three (3) Years Single Audits Performed on Greater East Texas community Action Program

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/ Disposition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|---|--|---|
| <p>Opinion</p> <p>Compliance for Major Programs – Unqualified Opinion</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ CEAP ▪ LIHEAP ▪ Head Start <p>Auditor Classified agency as low risk.</p> <p>Type A vs. Type B Threshold - \$300,000</p> | | | <p>statements.</p> <ul style="list-style-type: none"> ▪ over/under funding of grants, essentially loans between programs, including TDHCA as follows: <ul style="list-style-type: none"> ▪ CSBG Over funded \$22,604 ▪ CEAP Under funded \$39,327 ▪ CEAP Administration Over funded \$27,128 ▪ LIHEAP WAP/EWAP Under funded \$25,874 ▪ DOE WAP/EWAP Under funded \$6,736 <p>Follow-up on prior year finding regarding inventory of fixed assets for Head Start and CDBG not being done in a timely manner. This finding was cleared in 2000 audit.</p> |

Texas Department of Housing and Community Affairs

*Tom Green County Community Action Council
Historical Performance*

***Texas Department of Housing and Community Affairs
Management's Analysis and Evaluation of Performance of
Tom Green County Community Action Council (Tom Green)***

The Texas Department of Housing and Community Affairs (TDHCA) has reviewed the single audits for 2000 and 2001, and reviewed the summary of work completed and results of the monitoring reports for Tom Green for the last three years to determine the current status of Tom Green with regard to continuation of current contracts with TDHCA.

TDHCA Community Affairs Division management has reviewed single audit review reports from the Portfolio Management and Compliance (PMC) Division for 2000 and 2001. The PMC reports cited all Reportable Conditions (RCs) and Material Weaknesses (MWs). PMC's reports for Tom Green indicated two RCs for the period ending 1/31/2000. The two RCs are: single audit being submitted late to funding agencies and the general ledger balances do not agree with reports submitted to granting agencies. The PMC report for the period ending 1/31/2001 lists one RC, which is single audit being submitted late to funding agencies. The current audit due 6/30/2003 is delinquent. The PMC report notes the possibility that as a result of a pooled checking account inter-fund borrowing occurred.

Review of the summary of work completed by Tom Green for 2000, 2001 and 2002 indicates that Tom Green has weatherized 239 units, which were at or below 125% of poverty, in that time period with DOE and LIHEAP Weatherization funds. Tom Green weatherized 166 homes which were at or below 100% of the poverty income guidelines during the three year period. The maximum number of units was produced in 2000 with a total of 100 homes and the minimum was 56 homes in 2001. Tom Green expended 100% of DOE funds in 2000 and 77.8% of LIHEAP funds. In 2001 and 2002 which was a unique two year contract Tom Green expended 100% of DOE funds and 45% of the LIHEAP funds.

Evaluation of the prior three years monitoring visits indicate the following:

- Incorrect R-values for insulation were inputted into EASY audit in 2001;
- Incorrect energy rates were inputted into Easy Audit in 2002;
- Late submission of reports in 2000 and 2002;
- Issues with quality of final inspections in 2000 and 2001;
- Late submission of independent audit in 2001 and 2002; and
- Issues regarding initial assessments of units in 2000 and 2002.

TDHCA remains confident regarding the WAP management at Tom Green. While production and expenditures in the LIHEAP/WAP contract for program year 2000 were less than the 85% compliance requirement the production for 2001 and 2002 exceeded the 85% compliance requirement. The current WAP coordinator has a long tenure with the program and has consistently demonstrated a commitment to the program.

The submission of the single audit is a serious concern that must be addressed by the management of Tom Green.

While Tom Green has undergone an investigation by the FBI related to criminal activities in the Head Start Program at Tom Green, no indications have surfaced to indicate the possible involvement of any funds from programs administered by the Community Affairs Division, including WAP or CEAP. TDHCA will continue to closely monitor Tom Green and continue to provide training. If significant issues regarding program performance or management occurred, TDHCA will act to terminate the weatherization and CEAP contracts.

The Department is working with the county judges from Tom Green's eleven county service area in order to reconstitute the board of directors and stabilize this community-based organization.

Tom Green Community Action Council

PY 2000 - 2003 Programmatic Summary of Work Completed

| | DOE/Weatherization Assistance Program | | | | LIHEAP/Weatherization Assistance Program | | |
|-------------------------------|---------------------------------------|-----------------------------------|------------------|--|--|------------|---------------|
| | 2000 | 2001* | 2002 | | 2000 | 2001* | 2002 |
| Amount Awarded | | | | | | | |
| Units Weatherized | 35 | 28 | 34 | | 65 | 28 | 49 |
| Total funds awarded | \$ 82,440 | \$ 160,941 | \$ 163,541 | | \$ 139,410 | \$ 252,599 | \$ 252,599 |
| Percent expended | 100% | 40% | 100% | | 77.80% | 24.30% | 45% |
| Services Provided to: | | | | | | | |
| Owner Occupied | 35 | 11 | 33 | | 65 | 28 | 25 |
| Renter | 0 | 0 | 0 | | 0 | 0 | 24 |
| Unoccupied Unit | 0 | 4 | 0 | | 0 | 0 | 0 |
| Over Income | 0 | 9 | 0 | | 0 | 0 | 0 |
| Shelters | 0 | 4 | 1 | | 0 | 0 | 0 |
| Total | 35 | 28 | 34 | | 65 | 28 | 49 |
| Poverty Levels Served: | | | | | | | |
| 0%-50% | 6 | 1 | 6 | | 12 | 5 | 22 |
| 51%-75% | 6 | 6 | 7 | | 15 | 3 | 10 |
| 76-100% | 14 | 7 | 10 | | 17 | 10 | 9 |
| 101%-125% | 9 | 14 | 10 | | 21 | 10 | 8 |
| 125%-150% | 0 | 0 | 0 | | 0 | 0 | 0 |
| Over 150% | 0 | 0 | 0 | | 0 | 0 | 0 |
| Unoccupied | 0 | 0 | 0 | | 0 | 0 | 0 |
| Over Income | 0 | 0 | 1 | | 0 | 0 | 0 |
| Total | 35 | 28 | 34 | | 65 | 28 | 49 |
| DOE | | 97 | Three Year Total | | | 142 | LIHEAP |
| | | Total number of Units Weatherized | | | | | |
| | | 239 | | | | | |

*Lower than expected expenditure rate due to: (1) 1st year to administer the System Benefit Fund, (2) significant increase in funding as a result of 2 year WAP cycle, and (3) ramp up efforts necessary to meet significant increase in funding.

TDHCA accepted the Department of Energy option to conduct a two year program for the WAP contract. The contract began April 1, 2001 and terminated on March 31, 2003.

Results of Prior Three Year's Monitoring Visits Tom Green County Community Action Council

Definition of Finding and Recommended Improvement:

Findings are issues of non-compliance that results in a financial impact or detriment to the delivery of service in the program that may result in disallowed cost or contract action.

Recommended Improvements are program issues that require modification to assure compliance, may be used the first time an issue is identified that does not represent a financial impact or detriment to service delivery.

Weatherization Monitoring – PY 2003 **Monitoring visit March 17-21, 2003**

Finding: Tom Green County CAC had filed programmatic reports and financial reports late.
Repeat comment from PY 2001

Response: Reports will be submitted on time. Response enumerated a plan to accomplish.

Finding: Tom Green is delinquent in submitting the 2002 financial audit and in responding to the audit resolution letter.
Second consecutive year for comment

Response: They tried to contact their auditor, but he has not returned their calls. FBI has their financial records and obtaining copies is a very slow process.

Finding: Some of the required contract provisions were not included in 3 vendor's contracts.

Response: The page of the contracts containing the required contract clauses did not print out. Required provisions are in the contract.

Recommended Improvements: Client files did not contain documentation of assessments of gas cool stoves.
Recommend all assessments of appliances be documented in client files.

Response: Assessments on all appliances will be documented in client files.

Recommended Improvements: One air conditioner was replaced that did not rank one or greater on the EASY audit. Tom Green is to reimburse the weatherization program for the cost of this air conditioner.

Response: There is a glitch in the audit but Tom Green will reimburse the cost of the air conditioner to weatherization.

Closeout: The monitoring process will remain open until the audit report and the audit resolution letter are submitted and acceptable.

Results of Prior Three Year's Monitoring Visits Tom Green County Community Action Council

Weatherization Monitoring - PY 2002 Monitoring visit March 25-29, 2002

Finding: No WTU/SBF funds have been expended.
Second consecutive year for comment.

Response: Tom Green anticipates total expenditure of WTU funds.

Finding: Tom Green County CAC's financial audit was due October 31, 2001 and is now delinquent.

Response: While Tom Green provided monitors a copy of their financial audit, they are working with the Compliance Division to resolve all audit findings.

Finding: Three units inspected had materials installed incorrectly.

Response: Tom Green will have two staff persons independently perform final inspection to ensure thorough inspections.

Recommended Improvements: Subcontractor contracts need to be amended to add "early termination" clause and "hold harmless" clause.

Response: Required clauses were added.

Recommended Improvements: Tom Green needs to begin serving renters.

Response: Renters will be served.

Recommended Improvements: Energy rates were incorrectly calculated and entered into the EASY audit.

Response: Correct energy rates will be used in the EASY audit.

Note: T&TA was provided on EASY audit by Department staff.

Closeout: Responses accepted and monitoring process was closed.
Responses are verified by Department staff during subsequent monitoring visits.

Results of Prior Three Year's Monitoring Visits Tom Green County Community Action Council

Weatherization Monitoring – PY 2001 Monitoring visit February 5-9, 2001

Findings which required a corrective action:

Finding: Low production/expenditure on WTU contract.

Response: All WTU funds were expended by the end of the contract period.

Finding: Incorrect R-values for insulation inputted into EASY audit.

Response: Correct R-values for insulation will be entered in the audit.

Recommended Improvement: Monthly financial and performance reports were submitted late.

Response: Tom Green County CAC assures that all future reports will be submitted on time.

Recommended Improvement: Blower door and Fyrite Pro gas analyzer need to be calibrated.

Response: Since the original blower doors had been calibrated 2 months before the monitoring visit and would not hold the calibration, Tom Green purchased two new blower doors and disposed of the old blower doors.

Recommended Improvement: Reasons for not installing purchased materials must be documented in client file. Uninstalled materials are to be returned for credit.

Response: All materials not installed will be documented in client files.

Recommended Improvement: It is recommended that Agency back-up each EASY audit on a diskette after audit is completed.

Response: Tom Green will back up each completed audit on a diskette on a regular basis.

Recommended Improvement: Both initial and final assessments need to be more thorough.

Response: Staff will perform more thorough assessments and final inspections.

Note: T&TA was provided on programmatic and EASY audit by Department staff.

Closeout: Responses accepted and monitoring process was closed.
Responses are verified by Department staff during subsequent monitoring visits.

**Texas Department of Housing and Community Affairs
Results of Previous Three (3) Years Single Audits Performed on
Tom Green County Community Action Council**

Tom Green County Community Action Council

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC)¹ /Material Weaknesses (MW)²/Questioned Costs Relating to TDHCA Programs | Department's Resolution/Disposition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC)¹/Material Weaknesses (MW)²/Questioned Costs of Other Programs/Other Comments |
|--|--|--|---|
| Year Ended - 09/30/2002 | This audit is currently delinquent. The due date of the audit was 06/30/03. | | |
| <p>Year Ended - 01/31/2001</p> <p>Financial Report – Unqualified Opinion</p> <p>Compliance for Major Programs – Unqualified Opinion</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ Low-Income Home Energy Assistance Programs ▪ Head Start ▪ Child Care Mandatory and Matching Funds of the Child Care and Development Fund ▪ Child and Adult Care Food Program <p>Auditor classified auditee as low-risk</p> <p>Type A vs. Type B Threshold - \$300,000</p> | <p>(RC) Single Audit Report being submitted late to funding agencies.</p> <p>Prior year finding regarding reconciling reports was cleared.</p> | <p>Report still under review by Department. The Department received the report on 04/02/02 and began their review on 09/10/02.</p> <p>The Department sent a letter on 09/25/02. A follow up letter was sent by the Department on 12/31/02 for failure to respond. The issues are still unresolved. The Community Affairs division has placed Tom Green County CAC on a cost reimbursement sanction and is working with 11 county judges in the service area to reconstitute the board to address the single audit issue along with other issues.</p> | <p>Note in Financial Statements: Discussion of a pooled checking account. Programs whose share of the account is less than zero have effectively borrowed from programs with a positive balance. TDCHA as the funding source balances include:</p> <ul style="list-style-type: none"> ▪ CSBG deficit of \$25,445 ▪ CEAP surplus of \$23,659 ▪ DOE/Weatherization deficit of \$20,803 ▪ LIHEAP deficit of \$74,052 |

¹ - Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect an organization's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants.

² - A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Results of Previous Three (3) Years Single Audits Performed on Tom Green County Community Action Council

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/Disposition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|---|---|---|
| <p>Year Ended - 01/31/2000</p> <p>Financial Report – Unqualified Opinion</p> <p>Compliance for Major Programs – Unqualified Opinion</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ Low-Income Home Energy Assistance Programs ▪ Head Start ▪ Child Care Mandatory and Matching Funds of the Child Care and Development Fund ▪ Child and Adult Care Food Program <p>Auditor classified auditee as low-risk</p> <p>Type A vs. Type B Threshold - \$300,000</p> | <p>(RC) - Single Audit Report being submitted late to funding agencies</p> <p>(RC) - General ledger not reconciling to reports submitted to granting agencies.</p> <p>Financial Statement Findings: The Agency's general ledger balances do not agree with the report submitted to granting/contracting agencies.</p> | <p>Report still under review by Department. The Department received the report on 11/12/01 and began their review on 03/20/02.</p> <p>The Department set a letter on 03/22/02 for resolution of 3 findings. On 04/23/02, Tom Green County CAC replied that 2 findings were resolved and the third finding regarding a revised SEFA was to be provided and the remaining questioned funds transferred to the next year's contract funding. Department staff went on-site for follow up FY 2000 and FY 2001 audits June 2003. The status is currently pending.</p> <p>The Community Affairs division has placed Tom Green County CAC on a cost reimbursement sanction and is working with 11 county judges in the service area to reconstitute the board to address the single audit issue along with other issues.</p> | <p>Note in Financial Statements: Discussion of a pooled checking account. Programs whose share of the account is less than zero have effectively borrowed from programs with a positive balance. TDCHA as the funding source balances include:</p> <ul style="list-style-type: none"> ▪ CSBG deficit of \$50,091 ▪ CEAP surplus of \$40,995 ▪ DOE/Weatherization surplus of \$8,933 ▪ LIHEAP deficit of \$49,236 <p>Financial Statement Findings:</p> <ul style="list-style-type: none"> ▪ The Agency's general ledger balances do not agree with the report submitted to granting/contracting agencies. |

Texas Department of Housing and Community Affairs

*City of Fort Worth
Historical Performance*

***Texas Department of Housing and Community Affairs
Management's Analysis and Evaluation of Performance of
City of Fort Worth (Fort Worth)***

The Texas Department of Housing and Community Affairs (TDHCA) has reviewed the single audits for 2000 and 2001, and summary of work completed, and results of the last three years monitoring reports for Fort Worth to determine the current status of Fort Worth with regard to continuation of current contracts with TDHCA.

TDHCA Community Affairs Division management has reviewed single audit review reports from the Portfolio Management and Compliance (PMC) Division for 2000, 2001 and 2002. The PMC reports cited all Reportable Conditions (RCs) and Material Weaknesses (MWs). PMC's reports for Fort Worth indicated no RCs or MWs related to TDHCA programs for the year ending in 9/30/2000. In the year ending 9/30/2002 the PMC report indicates an issue related to CEAP regarding charging expenditures to the program after the program year. The PMC report also states that the issue was addressed during the single audit review and adequate corrective action was taken by Fort Worth and no cost was disallowed. The PMC report for the year ending 9/30/2002 indicates no RCs or MWs for the period. Multiple issues were listed in the PMC report noting RCs and MWs regarding other programs operated by Fort Worth, including Home and CDBG.

Review of the summary of work completed by Fort Worth for 2000, 2001, and 2002 indicates that Fort Worth has weatherized 607 units, which were at or below 125% of poverty, in that time period with DOE and LIHEAP Weatherization funds. Fort Worth weatherized 832 homes which were at or below 100% of the poverty income guidelines during the three year period. The maximum number of units was produced in 2002 with a total of 409 homes and the minimum was 310 homes in 2000. Fort Worth expended 92.9% of DOE funds and 97.3% of LIHEAP funds in 2001 and 2002 which was a unique two year contract.

Evaluation of the prior three years monitorings visits indicate the following:

- Late submission of reports in 2000 and 2001;
- No client education policy in 2000;
- Incorrect kilowatt hour rate for TXU was inputted into EASY audit in 2001;
- Incorrect costs for heating and cooling were inputted into Easy Audit in 2002;
- Installation of some materials not in compliance in 2001;
- Issues with client files were cited in all three years; and
- Two ineligible units were identified in 2002 and Fort Worth reimbursed all cost to the program.

TDHCA remains confident regarding the WAP management at Fort Worth. Production and expenditures in the LIHEAP/WAP contract for program year 2000 were less than the 85% compliance requirement. The current WAP coordinator demonstrates a

commitment to the program and has significantly increased production every year for the last three years.

While the single audits indicate issues with other programs under contract with the City of Fort Worth, no issues were identified with the Weatherization Program or the CEAP Program contracts. The CEAP Program was included in the audit for the period concluding 9/30/2002 and the weatherization program was included for the period ending 9/30/2001. TDHCA will continue to closely monitor Fort Worth and continue to provide training. If significant issues regarding program performance or management occur, TDHCA will act to terminate the Weatherization and CEAP contracts.

City of Fort Worth

PY 2000 - 2003 Programmatic Summary of Work Completed

| | DOE/Weatherization Assistance | | | | LIHEAP/Weatherization Assistance | | |
|-------------------------------|-------------------------------|------------|------------------|-----------------------------------|----------------------------------|------------|---------------|
| | 2000 | 2001* | 2002 | | 2000 | 2001* | 2002 |
| Units Weatherized | 66 | 45 | 112 | | 111 | 108 | 117 |
| Total funds awarded | \$ 157,596 | \$ 304,420 | \$ 460,625 | | \$ 266,766 | \$ 483,355 | \$ 483,355 |
| Percent expended | 99.40% | 39.50% | 92.90% | | 81.10% | 46.80% | 97.30% |
| Services Provided to: | | | | | | | |
| Owner Occupied | 8 | 13 | 94 | | 33 | 49 | 62 |
| Renter | 58 | 27 | 18 | | 78 | 44 | 53 |
| Unoccupied Unit | n/a | 1 | 0 | | 0 | 1 | 0 |
| Over Income | n/a | 4 | 0 | | 0 | 14 | 2 |
| Shelters | 0 | 0 | 0 | | 0 | 0 | 0 |
| Total | 66 | 45 | 112 | | 111 | 108 | 117 |
| Poverty Levels Served: | | | | | | | |
| 0%-50% | 6 | 4 | 12 | | 6 | 12 | 2 |
| 51%-75% | 3 | 8 | 24 | | 7 | 26 | 30 |
| 76-100% | 33 | 12 | 35 | | 52 | 30 | 35 |
| 101%-125% | 20 | 12 | 31 | | 26 | 24 | 48 |
| 125%-150% | 4 | 0 | 10 | | 12 | 1 | 48 |
| Over 150% | 0 | 3 | 0 | | 8 | 0 | 0 |
| Unoccupied | 0 | 1 | 0 | | 0 | 11 | 0 |
| Over Income | 0 | 5 | 0 | | 0 | 4 | 2 |
| Total | 66 | 45 | 112 | | 111 | 108 | 165 |
| DOE | 223 | | Three Year Total | | 384 | | LIHEAP |
| | | | | Total number of Units Weatherized | | | |
| | | | | 607 | | | |

*Lower than expected expenditure rate due to: (1) 1st year to administer the System Benefit Fund, (2) significant increase in funding as a result of 2 year WAP cycle, and (3) ramp up efforts necessary to meet significant increase in funding.

TDHCA accepted the Department of Energy option to conduct a two year program for the WAP contract. The contract began April 1, 2001 and terminated on March 31, 2003.

Results of Prior Three Year's Monitoring Visits City of Fort Worth

Definition of Finding and Recommended Improvement:

Findings are issues of non-compliance that results in a financial impact or detriment to the delivery of service in the program that may result in disallowed cost or contract action.

Recommended Improvements are program issues that require modification to assure compliance, may be used the first time an issue is identified that does not represent a financial impact or detriment to service delivery.

Weatherization Monitoring – PY 2003 Monitoring visit February 24-28, 2003

Finding: Income documentation was older than 12 months for homes receiving weatherization services. (Income documentation may not be older than 12 months).
Second consecutive year for comment

Response: City of Ft. Worth WAP staff will check dates on income documentation when the unit is first inspected. If income documentation is more than 12 months old, the household's income and number of residents will be re-verified to ensure only income eligible households are served. The WAP waiting time for services is currently 8-12 months from initial program application.

Finding: TXU SBF were expended on 2 non-TXU units.

Response: City of Ft. Worth has reimbursed the TXU/SBF account for the two ineligible units. In order to prevent future occurrences of this problem, staff will verify utility billing information for the unit during the initial assessment.

Closeout: All responses were acceptable and the monitoring process was closed.
Responses are verified by Department staff during subsequent monitoring visits.

Weatherization Monitoring – PY 2002 Monitoring visit April 15-19, 2002

Finding: The City of Fort Worth had filed programmatic reports and financial reports late.
Second consecutive year for comment

Response: City of Ft. Worth acknowledges that late reports have been a problem. City of Ft. Worth will require weatherization staff to work closely with accounting staff to ensure reports are sent on time.

Finding: Income documentation in client files requires updating (was over 12 months old). Costs entered into the audit for heating and cooling were not derived from the correct months. SBF funds were used to pay for gas appliances. Subcontractor's bid prices were not always reflected on labor/material invoices.

Response: Income documentation was updated and all 6 households are income eligible. Income documentation will be updated, if needed, during assessments.
The four months for determining heat cost will be November through February. The four months for cooling cost will be June through September.

Results of Prior Three Year's Monitoring Visits City of Fort Worth

SBF cost for gas appliances will be reimbursed. Weatherization staff will ensure that only submitted bid prices for labor/materials will be used on invoices.

Finding: Onsite unit inspections indicated the following problems:
-wall insulation was not installed to R-11
-unvented space heater (1 unit) with excess carbon monoxide was not addressed.
No carbon monoxide detector was installed.
-Gas analyzers need recalibrating.
-floor insulation (1 unit) was not installed in compliance with materials installation standards manual.

Response: Staff directed contractor to change wall insulation to cellulose which dense packs well. Carbon monoxide detectors will be installed in all units containing an unvented combustible fuel space heater. Assurance is given that excess carbon monoxide in dwellings will be addressed prior to installation of weatherization measures. Use of Monoxer II has been discontinued. Only Fyrite Pro gas analyzer will be used in the future.
Contractor returned to unit with floor insulation and installed tie straps.

Closeout: All responses were acceptable and the monitoring process was closed.
Responses are verified by Department staff during subsequent monitoring visits.

Weatherization Monitoring – PY 2001 **Monitoring visit January 22-24, 2001**

Findings which required a corrective action:

Finding: The City of Fort Worth had filed programmatic reports and financial reports late.

Response: The City of Ft. Worth will submit all monthly financial and programmatic reports no later than the 15th of the month (this is the due date).

Finding: Lack of a written client education policy.

Response: The City of Fort Worth provided to the Department a copy of their WAP Client Education Policy.

Finding: Kilowatt-hour rate for TXU contract was incorrectly entered into the EASY audit for TXU program.

Response: The City of Ft. Worth has corrected the kilowatt-hour rate on the TXU audit from .32 to .032. The staff will carefully verify the kilowatt-hour rate every time the TXU audit is performed for a particular unit.

Results of Prior Three Year's Monitoring Visits City of Fort Worth

Recommended Improvement: Low production rate for LIHEAP/WAP contract and TXU contract.

Response: The City of Ft. Worth expended 100% of the original LIHEAP/WAP allocation and 94% of the TXU contract.

Recommended Improvement: While each client file reviewed contained all required income documentation, not all required forms were signed and dated as required.

Response: All client file forms have been completed, signed, and dated. City of Ft. Worth staff will collect information, signatures, and dates during the initial assessment and recheck upon final inspection.

Recommended Improvement: While the quality of some of the work performed was poor, the City has already taken action to improve the quality of work by terminating the existing contractor and engaging a second contractor to install WAP measures.

Response: City of Ft. Worth will continue to monitor the quality of work performed by its contractor and will continue to demand excellent workmanship.

Recommended Improvement: Staff knowledge has improved over last two years. The Department recommends staff continue to review the contracts and all weatherization regulations, issuances, and manuals.

Response: City of Ft. Worth weatherization staff will continue to read and review all pertinent weatherization documents.

Closeout: All responses were acceptable and the monitoring process was closed. Responses are verified by Department staff during subsequent monitoring visits.

Texas Department of Housing and Community Affairs

Results of Previous Three (3) Years Single Audits Performed on City of Fort Worth

City of Fort Worth

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/Dispos ition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|--|--|---|
| <p>Year Ended - 09/30/2002</p> <p>Financial Report – Unqualified Opinion</p> <p>Compliance for Major Programs – Qualified opinion relating to compliance with the Davis Bacon Act and the program income requirements applicable to CDBG, subrecipient monitoring requirements applicable to HOME Program and Local Law Enforcement Block Grant, and special tests and provision requirements applicable to Local Law Enforcement Block Grant.</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ Comprehensive Energy Assistance Program ▪ Community Services Block | <p>CSBG – Workers' compensation amount charged to the grant could not be recalculated; e.g. Regarding cost allocation of expenses to CSBG program.</p> | <p>This audit report was recently received and has not been reviewed by the Department.</p> | <p>Financial Statement Findings:</p> <ul style="list-style-type: none"> ▪ (MW) - The City has not been able to reconcile its cash on the general ledger to the bank balance. ▪ (RC) - Accounting records disagree with fixed asset detail in tracking system. ▪ (RC) - Numerous and significant adjusting entries to correct financial statements and to reconcile various accounts. ▪ (RC) – Sales of capital assets not recorded. ▪ (RC) – The City has not written off any receivables it deems to be uncollectible and relies primarily on the audit to identify receivables to be written off. ▪ (RC) – Inappropriate access to vendor Master files by individuals with ability to create purchase orders. <p>Findings & Questioned Costs Related to Federal Awards:</p> <ul style="list-style-type: none"> ▪ HOME – Match not meeting federal requirements. ▪ HOME (MW) – The City does not adequately monitor its subrecipients. ▪ CDBG – 7 of 40 files tested did not contain environment review request from Program Manager to Contract Compliance Specialists. ▪ CDBG (MW) – The City found 3 of 5 contractors not submitting weekly-certified payroll reports and one contractor that did not |

¹ - Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect an organization's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants.

² - A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Results of Previous Three (3) Years Single Audits Performed on City of Fort Worth

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/Dispos ition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|---|--|--|
| <p>Grant</p> <ul style="list-style-type: none"> ▪ Community Development Block Grant ▪ Local Law Enforcement Block Grant ▪ HOME Program <p>Auditor did not consider City Low Risk</p> <p>Type A vs. Type B Threshold - \$838,779</p> | | | <p>submit any weekly payroll reports supporting compliance with Davis-Bacon; however, the City did not maintain copies of noncompliance notification letters.</p> <ul style="list-style-type: none"> ▪ CDBG (MW) - Program income reported did not have adequate supporting documentation, tie to the accounting records, was incomplete, and amounts reported to HUD are not reviewed by anyone else other than the preparer. ▪ CDBG (RC) – Supporting documentation was not adequate to support amounts tested in one quarterly Federal Cash Transaction Report. Costs questioned - \$1,885,942 (Amount of disbursements claimed on the quarterly report). ▪ CDBG – Two of eight files reviewed did not have adequate “real property” acquisition documentation. ▪ Local Law Enforcement Block Grant (MW) – The City did not comply with regulations regarding the submission of an acceptable Equal Employment Opportunity Plan to the Office of Civil Rights. Costs questioned - \$1,138,517 (complete grant). ▪ Local Law Enforcement Block Grant (MW) – Inadequate subrecipient monitoring. Costs questioned - \$1,203,158 (total funding provided to the subrecipients). |
| <p>Year Ended - 09/30/2001</p> <p>Financial Report – Unqualified Opinion</p> <p>Compliance for Major Programs – Qualified opinion relating to program income requirements of the CDBG program and subrecipient monitoring</p> | <ul style="list-style-type: none"> ▪ CEAP – Charging expenditures to the program after the program year. Costs questioned - \$23,527 ▪ CSBG – Documentation not available to support expenditures. Costs questioned - \$55,722 ▪ CSBG - Documentation not located for computer leases allocated to the program contrary to required costs principles. Costs questioned | <p>These issues were addressed during the single audit review and adequate corrective action was taken by the City as determined by Department staff's analysis of</p> | <p>Financial Statement Findings:</p> <ul style="list-style-type: none"> ▪ Numerous and significant adjusting entries to correct financial statements and to reconcile various accounts. ▪ The City has not been correctly reconciling its cash on the general ledger to the bank balance. ▪ Accounting records disagree with fixed asset detail in tracking system. ▪ Accounting records disagree with inventory on hand. |

Results of Previous Three (3) Years Single Audits Performed on City of Fort Worth

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/Disposition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|---|--|--|
| <p>requirements relating to Local Law Enforcement Grant and HOME Programs</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ Comprehensive Energy Assistance Program ▪ Community Services Block Grant ▪ Community Development Block Grant ▪ Local Law Enforcement Block Grant ▪ DOE/Exxon Weatherization Program ▪ Tornado Damage-FEMA ▪ HOME Program <p>Auditor did not consider City Low Risk</p> <p>Type A vs. Type B Threshold - \$984,737</p> | <p style="text-align: center;">\$12,859</p> | <p>documentation received from the City and follow up monitoring by the Community Services Division. No costs were disallowed.</p> | <p>Findings & Questioned Costs Related to Federal Awards:</p> <ul style="list-style-type: none"> ▪ CDGB – In testing the Consolidated Annual Performance Evaluation Report, supporting documentation of 6 of 25 providers did not agree with the reported number of clients served and documentation for 3 of the 25 providers could not be located. ▪ CDBG (RC) – Two quarterly Federal Cash Transaction Reports reviewed did not agree with the accounting records. ▪ CDBG (MW) - Program income reported did not have adequate supporting documentation, tie to the accounting records, was incomplete, was incorrectly posted to HUD’s information system (IDIS) and was double reported in instances. ▪ CDBG – Funds transferred to the Economic Development Initiative as matching funds for the EDI grant; however, at time of transfer, no expenses had been incurred by EDI grant, which must be incurred and paid before the City can reimburse the grant. Costs questioned - \$443,000. ▪ CDBG – Four of six properties purchased at a value greater than the appraised value. Costs questioned - \$34,500. ▪ Local Law Enforcement Block Grant (MW) - Inadequate monitoring of subrecipients’ activities and non-compliance with program rules. Costs questioned - \$1,229,275. ▪ HOME Program (MW) – The City does not adequately monitor its subrecipients. Costs questioned - \$468,412 (Represents the funding provided to the six subrecipients tested). |
| <p>Year Ended - 09/30/2000</p> <p>Financial Report – Unqualified Opinion</p> | <p>No current findings related to TDHCA programs</p> | <p>N/A</p> | <p>Financial Statement Findings:</p> <ul style="list-style-type: none"> ▪ Accounting records disagree with fixed asset detail in tracking system. ▪ Numerous and significant adjusting entries to correct financial statements and to reconcile various accounts. |

Results of Previous Three (3) Years Single Audits Performed on City of Fort Worth

| Year Ended / Report Opinion/Audit Coverage | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs Relating to TDHCA Programs | Department's Resolution/Dispos ition and, as applicable, Material Weakness Resolution/Action | Reportable Conditions (RC) ¹ /Material Weaknesses (MW) ² /Questioned Costs of Other Programs/Other Comments |
|--|--|--|--|
| <p>Compliance for Major Programs – Qualified opinion relating to subrecipient monitoring requirements relating to Local Law Enforcement Grant Program and CDBG and environmental reviews relating to CDBG</p> <p>Major Programs:</p> <ul style="list-style-type: none"> ▪ Local Law Enforcement Block Grant ▪ FAA Program ▪ Community Development Block Grant ▪ Workers investment Account ▪ Federal Emergency Management Agency <p>Auditor did not consider City Low Risk</p> <p>Type A vs. Type B Threshold - \$984,917</p> | | | <p>Findings & Questioned Costs Related to Federal Awards:</p> <ul style="list-style-type: none"> ▪ Local Law Enforcement Grant Program (MW) - The City does not adequately monitor its Local Law Enforcement Grant Program subrecipients. Information provided for perspective mentioned that the City does not perform adequate subrecipient monitoring of several of its programs and that the City did not appear to be fully aware of its subrecipient monitoring responsibilities. Costs Questioned - \$1,141,000. ▪ CDBG (RC) - The city started seven projects out of 40 for the emergency repair program before completion of required environmental reviews. Costs Questioned - \$14,259. ▪ CDBG (RC) – Contract Compliance Specials has not scheduled a follow up visit with the subrecipient to check on the status of the corrective actions taken related to findings reported in the internal audit report. |

Texas Department of Housing and Community Affairs

State Auditor's Office -
A Special Investigation Unit Report Regarding
Tom Green Community Action Council

Texas Department of Housing and Community Affairs

Energy Assistance Programs

*Prior Audit Issues
Fiscal Year 2000 through Present*

- *Summary Report of Prior Audit Issues Since FYE 8/31/99*
- *Results of Funding Source Monitoring Reviews Since September 1997*
- *Program Monitoring*

Texas Department of Housing and Community Affairs - Energy Assistance Section Summary Report of Prior Audit Issues Since Fiscal Year End August 31, 1999

| Ref. # | Report Date Auditors | Report Name Audit Scope | Status | | Target |
|---|-------------------------|--|------------------------|--|----------|
| | | | Codes* | Date | Date |
| 141 | 12/12/97 | Single Audit Report | lxx | 12/18/98 | |
| | KPMG / MM&Co | Annual independent audit of Federally funded programs | | | |
| Division: LIHEAP | | | | | |
| Issue: Funds drawn by CAUSE, Inc., a subrecipient, are in excess of allowable expenditures. | | | | | |
| Status: Cleared by KPMG/Martinez, Mendoza and Co. in subsequent year audit. | | | | | |
| ----- | | | | | |
| 97 | 12/18/98 | Single Audit Report | Dx Ix lxx | 05/18/99 09/23/99 02/24/00 | |
| | KPMG / MM&Co | Annual Independent Audit of Federally Funded Programs | | | |
| Division: LIHEAP | | | | | |
| Issue: The Department is questioning \$173,705 in disallowed LIHEAP costs regarding auditing services for the fiscal years ending September 1994 and 1995, which it is trying to recapture. Reanalyze policies, procedures, contracts and related laws in order to determine, if there are any modifications needed or whether other options are available, whereby sanctions could be imposed or funds suspended more rapidly. Similar finding in prior year. | | | | | |
| Status: 02/24/00 - Cleared by External Auditor in subsequent year audit. | | | | | |
| ----- | | | | | |
| 271 | 02/12/02 | Compliance with Requirements & IC Over Compliance - A-133. | Pxx Px Ix lxx | 04/26/02 07/15/02 10/01/02 02/04/03 | 08/31/02 |
| | KPMG | Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG). | | | 12/31/02 |
| Division: LIHEAP | | | | | |
| Issue: \$199,543 of energy assistance funds were questioned by KPMG as the results of an independent audit of one of Department's subgrantees that identified embezzled funds over a period of five years. TDHCA reported the questioned costs to the appropriate funding Federal funding agencies. | | | | | |
| Status: 02/24/03 - Cleared by External Auditor in subsequent year audit. | | | | | |
| 10/01/02 - On 9/25/02, the Department received a reimbursement check of \$199,543 from the subrecipient. This issue is considered resolved/implemented as these funds will be used to satisfy the questioned costs relating to the LIHEAP and Weatherization programs. | | | | | |
| ----- | | | | | |

Texas Department of Housing and Community Affairs
Results of Previous Monitoring Reviews Performed by the U.S. Department of Energy on the
Weatherization Assistance Program Since September 1997

| Date of Visit/ Report Date | Auditors | Scope | Results |
|---|--|---|--|
| <p>Date of Visit: Aug. 31, 1999 through Sept. 1, 1999</p> <p>Report Date: Sept. 2, 1999</p> | <p>Denver Regional Support Office of the Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy</p> | <p>Contracts, financial and programmatic processes, accounting and monitoring procedures, and general record keeping practices conducted by the Department for WAP.</p> <p>The Department staff also provided demonstrations of the computerized contracting and reporting system, the consumption and energy savings study and the Easy Audit.</p> | <p>Overall, the program appears to be well managed. The State processes and procedures that are in place for providing guidance on financial and programmatic management of the program appear to be working well. In a situation where disallowed costs were involved with a subgrantee, the oversight systems in place detected the problem and acted appropriately in issuing corrective action requirements to the subgrantee.</p> <p>Recommendations to improve program management efficiency and cost-effectiveness of services delivered:</p> <ul style="list-style-type: none"> • Corrective action process for dealing with findings resulting from monitoring of subgrantees be documented in a policy or guideline format. • Supplement programmatic monitoring with financial monitoring. • Establish term limits for the Policy Advisory Committee to increase opportunities for fresh ideas and input into the program. • Ensure the State has adequate representation at DOE-sponsored events such as the National Weatherization Conference to participate in the design of program changes. • Parameters used in energy audits for "effective life-span" should be revisited for any measure that is prone to reduced effectiveness due to exposure to normal wear and tear over time. Subgrantees are providing storm windows and doors at a higher than average rate found in other states and using a 20 year life span for these measures in energy audits. While this may be the life span advocated by the manufactures of these products, few will guarantee their windows will perform at the designated R-value for this length of time. Additionally, several recent energy savings evaluations indicate that these measures do not perform as well as commonly expected. Accordingly, other states have opted to use an effective life span of 10-12 years. |
| <p>Date of Visit: May 6, 1998</p> | <p>Support Office of the Office of Technical and Financial Assistance, U.S. Department of Energy</p> | <p>Visit Focus: Administrative and Program for the State of Texas' Weatherization Assistance Program (WAP), specifically contracts and documentation for the 1997- 98 program year.</p> | <p>The program appears to be well managed by the office.</p> <p>Concerns:</p> <ul style="list-style-type: none"> • Provide guidance to the subgrantees and work with the local agencies to increase the number of rental units which are receiving weatherization services. • Weatherization Health and Safety funds should not be used to install deadbolt locks if the original door did not contain one. |

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Program Monitoring Function Overview

The Texas Department of Housing and Community Affairs (TDHCA) monitors all Weatherization Assistance Program (WAP) subgrantees at least once a year for contract compliance, and training and technical assistance (T&TA) is provided to subgrantees, as necessary during the monitoring process. Subsequent monitoring is conducted by assigned staff members to ensure that corrective actions are implemented. If a subgrantee continues to demonstrate deficiencies a team of TDHCA Program Officers may conduct additional monitoring and provide additional T&TA as needed.

Monitoring is scheduled in relation to a risk management based assessment. Primary considerations consist of the: contract amount, number and gravity of previous findings, status of finding resolution, and submission and condition of annual independent audit. TDHCA conducts monthly desk reviews of expenditures and production levels. Scheduling variances from risk ranked reviews may result due to availability of staff, local production levels, geographic and climatic considerations.

TDHCA has established a goal to conduct onsite inspection of 10% of all units completed with Weatherization funds and 10% of all client files. TDHCA concentrates on completed units whose work completion dates are less than 60 days from the date of the monitoring. Additional units are inspected when a sufficient number of units fail to meet this criterion. Financial management control and the quality of work performed is the primary focus of the monitoring process. The monitoring process also includes health and safety procedures, energy audits and client education procedures.

Monitoring reviews are conducted to ensure weatherization programs are managed in accordance with federal and state guidelines and that eligible low-income households are receiving quality and appropriate weatherization of their homes.

Supervision/Quality Control

With regard to supervision and quality control, all draft and final monitoring reports are reviewed by the Project Manager and Section Manager prior to the release of the report to the subgrantee and subgrantee board chair. Findings of a serious nature are reported as part the review process and may involve the Division Director, Legal Section and possibly the Deputy Executive Director. Additional comments relating to supervision and quality control have been included in the table below.

Program Monitoring Details:

| Monitoring Responsibilities / Requirements | TDHCA's Procedures ¹ to Ensure Compliance |
|--|--|
| General Ledger & Accounting Practices | <p>Onsite reviews are conducted by the Program Officer. The review includes the following actions:</p> <ul style="list-style-type: none"> • Review of general ledger and/or accounting work papers to ensure monthly reports are derived from and reconcile to the general ledger or accounting work papers. • Review and determination of program cash on hand; • Review of cash disbursement journal and selection of 20 (minimum) checks for review for adequate documentation; • Review of staff duties, salaries, and cost allocations; • Review of previous program year final reports and selection and review of cost incurred between previous monitoring and contract closeout. <p>These actions are taken to assure compliance with cost principles, uniform administrative requirements and contract management standards.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at</p> |

¹ Procedures include (1) the position title responsible and number of assigned FTEs, (2) if procedures are formal (current standard operation procedures/monitoring tools in writing) or informal, (3) a brief (bullets) summary of procedures, (4) the frequency (how often), (5) the extent (100% or sample basis. If sample, a brief description of sampling methodology), (6) if performed in-house or during field visits, and (7) information / information systems used to determine compliance.

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|---|---|
| | <p>this time no onsite supervision is provided.</p> <p>Planned Actions - Policies and procedures are planned to require that additional documentation supporting monitoring results be available in monitoring files for review by Manager and Director reviews on a sample basis and as needed.</p> |
| Single Audit Review | <p>Conducted by the Compliance Division. Compliance is contacted prior to or at the time of the onsite review to determine the real time status of independent audit. Program Officers complete a portion of the monitoring instrument to indicate current status of single audit and any funds related to the single audit.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> <p>Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements. Each report is also reviewed for findings, reportable conditions, and material weaknesses. Expenditures reported in the audit report are reconciled to the Department's accounting records. If a management letter is issued in conjunction with the audit, the management letter is also reviewed for issues.</p> <p>When deficiencies or findings for general requirements and Department programs are noted on the report, management must submit a response and planned corrective action. The response is reviewed and analyzed by Department staff. Upon the receipt of an acceptable response, the findings are cleared and the audit report is accepted.</p> <p>Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| Procurement | <p>Procurement records are reviewed and a determination of compliance with procurement regulations is made by the Program Officer. The review process includes:</p> <ul style="list-style-type: none"> • Review of all purchase amounts; • Review of sealed bid process; • Review of any competitive proposals conducted; • Review of any non-competitive negotiations conducted; • Review of any alternative procurement efforts; and • Review of Contracts initiated as a result of procurement efforts. <p>All non-competitive procurement must receive TDHCA'S prior approval.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Onsite assistance is available to the Program Officer at the time of the monitoring via email/phone/fax. Copies of documentation related to procurement findings returned to TDHCA are reviewed and maintained as part of the monitoring file.</p> <p>Planned Actions – As above.</p> |
| Subgrantee General Liability Insurance | <p>An onsite review is conducted of the subgrantee's current general liability insurance policy to determine the following:</p> <ul style="list-style-type: none"> • Is the policy current; • Does policy carry all required provisions, including adequate personal injury and property damage liability; |

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| | <ul style="list-style-type: none"> • Cost of policy to the program; and • Is cost allocated correctly <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| Internal Management | <p>Onsite review is conducted of subgrantees policies and procedures regarding the following:</p> <ul style="list-style-type: none"> • Conflict of interest and nepotism; • Prohibition of discrimination and to provide for equal opportunity; • Provision to prevent political activity and lobbying; • The existence of an approved travel policy; • Assurance of adequate internal policies to provide for proper and effective management of all activities and funds authorized by the WAP contract sufficient to prevent, detect and correct incidents of waste, fraud and abuse in the WAP Program. <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| Administration | <p>Onsite review is conducted to attain assurance that State and Federal administrative requirements are met in the operation of the WAP program. Allowable administrative activities include:</p> <ul style="list-style-type: none"> • Reasonable costs associated with Subgrantee administrative personnel; • Out of service area travel; • Office space cost; • Equipment and supplies necessary for the administration of the WAP program. <p>Review is to assure administrative costs are allowable and allocated to the program on a reasonable basis and that the basis is supported.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| Property Management | <p>Onsite review is conducted to assure that all materials, vehicles and equipment purchased with WAP program funds in accordance with WAP program guidelines and are maintained in an inventory or are disposed of in accordance with Federal and State WAP program guidelines.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| Client Related Management | <p>Onsite review is conducted of client files. Review of client files includes;</p> <ul style="list-style-type: none"> • All documentation required by WAP contract; • Current and valid income documentation; • Review of income calculation methodology; • Complete and accurate Building Weatherization Reports (BWR); • Client denial forms if required; • Documentation of outreach and service delivery activities; and • Client education efforts. <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| On-site Inspection | <p>Onsite inspection of units weatherized with program funds are conducted on a minimum of 10% of units to assure compliance with State and Federal regulations regarding material and installation standards. Final inspection includes: blower door testing, comparison of BWR to</p> |

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| | <p>actual material installed and interviews with clients to determine client satisfaction.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Planned Actions – As above.</p> |
| Easy Audit review | <p>Onsite review is conducted of EASY audits conducted on all units inspected. Audits are reviewed for accuracy and to assure data inputted in the audit is accurate and the audited units are eligible for weatherization.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Planned Actions – As above.</p> |
| <i>OMB Circular No. A-133 Compliance Supplement – Provisional 6/97:</i> | |
| General Requirements | |
| Activities Allowed or Unallowed | <p>Activities allowed include:</p> <ul style="list-style-type: none"> • Installation of weatherization material on single and multi-family dwellings and eligible shelters and rental units; • Addressing energy related health and safety hazards; • Re-weatherization of units damaged by fire, flood or act of God and repair to weatherization materials is not paid for by insurance. <p>Activities not allowed include:</p> <ul style="list-style-type: none"> • To weatherize a dwelling unit designated for acquisition or clearance by a state, federal or local program within 12 months from the date of weatherization. • The installation of weatherization materials not included in Attachment a 10 CFR 440 <p>Annual onsite monitoring is conducted by TDHCA Program Officers of the Energy Assistance Section Staff to assure all activities conducted are allowable. The monitoring includes onsite inspection of completed units to assure installation of weatherization material complies with all federal and state guidelines.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Planned Procedures – As above.</p> |
| Allowable Costs/Cost Principles | <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Planned Actions – As above.</p> |
| Cash Management | <p>Contract Specialists review and approve all cash draws upon submission of the monthly reports by the subrecipient. Initial draws may be approved for 1/12th of the contract amount. Monthly draws must be for a 30 day need. The main criteria for approval of monthly draws are rate of production, and amount of excess cash on hand. The draw is then routed to the Accounting Section where it is logged in by the Accounting Clerk. The clerk forwards all draw requests to the Grant Accountant. The Accountant reviews and prepares the accounting transaction. All monthly reports are reviewed by the contract specialist on a monthly basis to assure compliance with existing cash management guidelines.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided. Planned Actions – As above.</p> |
| Davis-Bacon Act | Not Applicable |
| Eligibility | Eligible dwelling units must be occupied by: a family unit whose income is at or below 125% of |

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| | <p>the poverty level determined in accordance with criteria established by Director of OMB; or containing a member who has received cash assistance under Title IX or XVI of the Social Security Act or applicable State or local law at any time during the 12 months period preceding the determination.</p> <p>Eligibility criteria are reviewed by TDHCA EA Program Officers at time of annual monitoring. A minimum of 10% of all client files are reviewed at the time of the monitoring.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Actions – As above.</p> |
| Equipment and Real Property Management | <p>Contractor shall submit to TDHCA no less than 60 days after end of the allocation period an inventory of all vehicles, tools and equipment with an acquisition value of \$5,000 or more and a useful life of more than one year, if purchased in whole or part with Weatherization funds. Prior TDHCA approval is required for purchase in excess of \$5,000. All equipment purchased is not assets of the subgrantee or TDHCA, but assets held in trust of the Program. Inventories are received and reviewed on annual basis by a TDHCA EA Contract Specialist.</p> <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently; at this time no onsite supervision is provided.</p> <p>Planned Procedures – As above.</p> |
| Matching, Level of Effort, Earmarking | Not Applicable |
| Period of Availability of Federal Funds | Not Applicable |
| Procurement and Suspension and Debarment | <p>Procurement is in accordance TDHCA WAP Policy Issuance #02-10.2 to ensure compliance with federal requirements. Subgrantee suspension and termination is in accordance with TDHCA WAP Policy Issuance #95-12.8. Subgrantees are required to conduct an internet inquiry of potential subcontractor's status with regard to appearance on Federal disbarment listings. TDHCA Program Officers review Subgrantees' procurement efforts at time of annual monitoring. Review of efforts to determine eligibility of sub-contractors is conducted by Program Officer at time of annual monitoring.</p> <p>Supervision/Quality Control - All efforts to suspend or to terminate a Weatherization subgrantee are reviewed by Project Manager, Program Manager, Division Director, Legal Division, Deputy Executive Director and Executive Director, prior to suspension or termination of the contract.</p> <p>Planned Actions – As above.</p> |
| Program Income | Not Applicable |
| Real Property Acquisition and Relocation Assistance | Not Applicable |
| Reporting | <p>Each subgrantee receiving Weatherization financial assistance shall keep records including: Records which fully disclose the amount and disposition of funds received for;</p> <ul style="list-style-type: none"> • Total cost of weatherization projects; • Average costs incurred per individual unit; • Average size of units; • Average income of households receiving assistance; and • Other such records deemed necessary for an effective audit and performance evaluation. <p>TDHCA Program Officers and Contract Specialist review documentation submitted by Subgrantees on a monthly basis and conduct onsite review of documentation maintained at time of the annual monitoring visits to ensure compliance reporting requirements</p> |

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| | <p>Supervision/Quality Control - Program Officers conduct onsite monitoring independently, at this time no onsite supervision is provided. Contract Specialist forwards all reports and fund requests to the Financial Administration Section for review and payment.</p> |
| <p>Subrecipient Monitoring <i>(Identifying how the Department is monitoring other requirements substantially addresses this requirement.)</i></p> | <p>The Texas Department of Housing and Community Affairs (TDHCA) monitors all Weatherization Assistance Program (WAP) subgrantees at least once a year for contract and federal program compliance. Training and Technical Assistance (T&TA) is provided to the subgrantees, as necessary during the monitoring process. Subsequent monitoring is conducted by assigned staff members to ensure that corrective actions are implemented. If a subgrantee continues to demonstrate deficiencies, a team of TDHCA Program Officers may conduct an additional monitoring visit and provide additional T&TA as needed.</p> <p>Monitoring is scheduled in relation to a risk based management assessment. Primary considerations consist of: contract amount, number and gravity of previous findings, status of finding resolution, and submission and condition of annual independent audit. TDHCA conducts monthly desk reviews of expenditures and production levels. Scheduling variance between risk ranking and monitoring visits may result due to availability of staff, local production levels, geographic and climatic considerations.</p> <p>TDHCA established a goal to conduct onsite inspection of 10% of all units completed with Weatherization funds and 10% of all client files. TDHCA concentrates on completed units whose work completion dates are less than 60 days from the date of the monitoring. Additional units are inspected should a sufficient number of units fail to meet these criteria. Financial management control and the quality of work performed is the primary focus of the monitoring process. The monitoring also includes a review of health and safety procedures, energy audits and client education procedures.</p> <p>Monitoring is conducted to ensure weatherization programs are managed within federal and state guidelines and that eligible low-income households are receiving quality and appropriate weatherization of their homes.</p> |
| <p>Special Tests and Provisions <i>(Consider in conjunction with Program Requirements above.)</i></p> | <p>Onsite inspections occur at the time of the annual monitoring and a minimum of 10% of all completed units are inspected.</p> <p>Onsite inspections are conducted of completed units. Efforts are made to conduct inspections in as many diverse geographic areas served by the subgrantee as possible. If more than one subcontractor is employed by the subgrantee efforts are made to review work performed by all subcontractors. Inspections may include both multi-family and single family units as well as manufactured housing when feasible. Inspections are designed to verify that materials charged to the WAP program are installed and installed in compliance with all state and federal guidelines and specifications.</p> |
| <p>Part 3 Compliance Requirements, M. Subrecipient Monitoring: A pass-through entity is responsible for:</p> | |
| <p>Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and</p> | <p>All WAP Program CFDA numbers are identified in the State Plans distributed to all subgrantees on an annual basis. Current WAP contracts are renewed rather than awarded on an annual basis pending satisfactory completion of the program year. Annual Weatherization Contracts identify applicable State and Federal requirements including Audit requirements.</p> <p>Supervision/Quality Control - State plans including the CFDA numbers are reviewed by the</p> |

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| applicable compliance requirements. | Project Manager, Program Manager and Division Director prior to distribution to all subgrantees. Contract renewal is not automatic and subject to annual performance review. |
| Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements. | Please see Subrecipient Monitoring listed above. |
| Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings. | <p>Conducted in conjunction with the Portfolio Management and Compliance Division. PMC is contacted prior to or at the time of the onsite review to determine the real time status of independent audit.</p> <p>Within 60 days after the end of their fiscal year, each subrecipient is required to submit an Audit Certification Form. Each subrecipient must self-certify whether they are subject to Single Audit requirements (whether the \$300,000 expenditure threshold has been exceeded). If the subrecipient certifies that the Single Audit is not applicable to them, they are current and no further audit requirements apply. If they certify that the Single Audit is applicable, the Single Audit is due within 9 months after the end of their fiscal year.</p> <p>Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements. Each report is also reviewed for findings, reportable conditions, and material weaknesses. Expenditures reported in the audit report are reconciled to the Department's accounting records. If a management letter is issued in conjunction with the audit, the management letter is also reviewed for issues.</p> <p>When deficiencies or findings for general requirements and Department programs are noted on the report, management must submit a response and planned corrective action. The response is reviewed and analyzed by Department staff. Upon the receipt of an acceptable response, the findings are cleared and the audit report is accepted.</p> <p>Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. | <p>TDHCA contract specialists review monthly funding reports submitted. Final reports submitted by subgrantee are evaluated by the financial services section to determine compliance with established criterion to assure state compliance with federal regulations and guidelines. An annual onsite review of the subgrantees Weatherization program is conducted to determine compliance with all federal and state regulations and guidelines.</p> <p>Final reports are reviewed and any expenditures determined to be in non-compliance are noted, and a request for reimbursement is forwarded to the subgrantee. Any cost identified as a disallowed cost at the time of the onsite monitoring is indicated in the monitoring report and reimbursement is requested.</p> <p>The risk assessment process factors in a subrecipients ability to comply with Federal requirements and, by extension, the Department's ability as a pass-through agency.</p> |
| <p>Notes:</p> <ul style="list-style-type: none"> • <i>Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.</i> • <i>Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site</i> | |

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| | <p><i>visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.</i></p> <p><i>The requirements for subrecipient monitoring are contained in the A-102 Common Rule (§ __.37 and § __.40(a)), OMB Circular A-110 (§ __.50(a), Federal awarding agency program regulations, and the terms and conditions of the award.</i></p> |

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| Part 6 Internal Control, M. Subrecipient Monitoring | |
| <p>Control Objectives: To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.</p> <p>Control Environment:</p> <ul style="list-style-type: none"> ➤ Establishment of "tone at the top" of management's commitment to monitoring subrecipients. ➤ Management's intolerance of overriding established procedures to monitor subrecipients. ➤ Entity's organizational structure and its ability to provide the necessary information flow to monitor subrecipients are adequate. ➤ Sufficient resources dedicated to subrecipient monitoring. ➤ Knowledge, skills, and abilities needed to accomplish subrecipient monitoring tasks defined. ➤ Individuals performing subrecipient monitoring possess knowledge skills and abilities required. ➤ Subrecipients demonstrate that: <ul style="list-style-type: none"> • They are willing and able to comply with the requirements of the award and • They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award. ➤ Appropriate sanctions taken for subrecipient noncompliance. <p>Risk Assessment: Key managers understand the subrecipient's environment, systems, and controls sufficient to identify the level and methods of monitoring required. Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:</p> <ul style="list-style-type: none"> ➤ Economic conditions. ➤ Political conditions. ➤ Regulatory changes. ➤ Unreliable information. ➤ Mechanisms exist to identify and react to changes in subrecipients, such as: <ul style="list-style-type: none"> ➤ Financial problems that could lead to diversion of grant funds. ➤ Loss of essential personnel. ➤ Loss of license or accreditation to operate program. ➤ Rapid growth. ➤ New activities, products, or services. ➤ Organizational restructuring. | |
| Responsible for performing mechanics of risk assessment | <p>Conducted by assigned Energy Assistance Section staff member in conjunction with Compliance Division.</p> <p>Supervision/Quality Control - Risk assessment module results are reviewed by Project Manager.</p> |
| Responsible for providing input into risk assessment. | <p>Input data is derived from the monitoring reports.</p> <p>Supervision/Quality Control – As above.</p> |
| Responsible for providing results of technical assistance into risk assessment | <p>Input data is derived from the monitoring reports.</p> <p>Supervision/Quality Control - – As above.</p> |
| Responsible for providing results of monitoring visits into risk assessment | <p>Input data is derived from the monitoring reports.</p> |

² Procedures include (1) the position title responsible and number of assigned FTEs, (2) if procedures are formal (current standard operation procedures/monitoring tools in writing) or informal, (3) a brief (bullets) summary of procedures, (4) the frequency (how often), (5) the extent (100% or sample basis. If sample, a brief description of sampling methodology), (6) if performed in-house or during field visits, and (7) information / information systems used to determine compliance.

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| | Supervision/Quality Control – As above. |
| Responsible for providing results of audit reviews into risk assessment | Audit review data is inputted by the Portfolio Management and Compliance Section. Supervision/Quality Control – As above. |
| Other types of input entered into risk assessment and the responsibility for doing so. | At this time no other data is inputted into the risk assessment module. Supervision/Quality Control – As above. |
| Control Activities: | |
| Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements. | All WAP Program CFDA numbers are identified in the State Plans distributed by TDHCA to all subgrantees on an annual basis. Current WAP contracts are renewed rather than awarded on an annual basis pending satisfactory completion of the program year. Supervision/Quality Control - State plans including the CFDA numbers are reviewed by the Project Manager, Program Manager and Division Director prior to distribution to all Subgrantees. Contract renewal is not automatic and subject to annual performance review. |
| Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program including the audit requirements of OMB Circular A-133. | Annual Weatherization Contract, Section 2, Section 5, and Section 15 identify applicable State and Federal requirements, including Audit requirements. Supervision/Quality Control - Contract is reviewed and approved by the legal section of TDHCA on an annual basis prior to release to subgrantees. |
| Subrecipient's compliance with audit requirements monitored using techniques such as the following: | |
| <ul style="list-style-type: none"> Determining by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB Circular A-133. | <p>Federal criterion regarding OMB A-133 is included in Section 15 of all subgrantee Weatherization contracts.</p> <p>Within 60 days after the end of their fiscal year, each subrecipient is required to submit an Audit Certification Form. Each subrecipient must self-certify whether they are subject to Single Audit requirements (whether the \$300,000 expenditure threshold has been exceeded). If the subrecipient certifies that the Single Audit is not applicable to them, they are current and no further audit requirements apply. If they certify that the Single Audit is applicable, the Single Audit is due within 9 months after the end of their fiscal year.</p> <p>Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. The TDHCA Portfolio Management and Compliance is responsible for reviewing and final determination of threshold status of all subgrantees.</p> |
| <ul style="list-style-type: none"> If an audit is required, assuring that the subrecipient submits the report, report package or the documents required by OMB circulars and/or recipient's requirements. | <p>TDHCA Portfolio Management and Compliance is responsible for reviewing and final determination of threshold status of all subgrantees and receives and maintains all audits. Notification of compliance or non-compliance is provided to the sections as they apply to subgrantees.</p> <p>If a subrecipient is subject to the Single Audit requirements, the single audit report is due within 9 months after the end of their fiscal year.</p> <p>Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements. Each report is also reviewed for findings, reportable conditions, and material weaknesses. Expenditures reported in the audit report are reconciled to the Department's accounting</p> |

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| Monitoring Responsibilities / Requirements | TDHCA's Procedures ² to Ensure Compliance |
|---|---|
| | <p>records. If a management letter is issued in conjunction with the audit, the management letter is also reviewed for issues.</p> <p>When deficiencies or findings for general requirements and Department programs are noted on the report, management must submit a response and planned corrective action. The response is reviewed and analyzed by Department staff. Upon the receipt of an acceptable response, the findings are cleared and the audit report is accepted.</p> <p>Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| <ul style="list-style-type: none"> If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, following up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements. | <p>TDHCA Portfolio Management and Compliance (PMC) receives and maintains all audits. Notification of compliance or non-compliance is provided to the sections as they apply to subgrantees. Upon determination of non-compliance subgrantee is notified.</p> <p>Program staff is notified when Single Audits are delinquent. Although PMC audit staff is responsible for tracking audit deficiencies and follow-up, program staff determines when to enforce sanctions.</p> <p>Supervision/Quality Control - TDHCA Portfolio Management and Compliance is responsible for reviewing and final determination of threshold status of all subgrantees.</p> |
| Subrecipient's compliance with Federal program requirements monitored using such techniques as the following: | |
| <ul style="list-style-type: none"> Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable. | Currently reports are expected to be issued within 30 days after an onsite monitoring occurs. Response to the reports is due within 30 days of the date of the report. |
| <ul style="list-style-type: none"> Maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken. | <p>Tracking of the status of the monitoring reports and responses are entered into the risk assessment module.</p> <p>Supervision/Quality Control - Project Manager reviews the status of the subgrantees on a periodic basis.</p> |
| <ul style="list-style-type: none"> Regular contacts with subrecipients and appropriate inquiries concerning the Federal program | <p>WAP Policy Issuances and Memoranda are issued and used to relay relevant WAP Program information to the subgrantees.</p> <p>Supervision/Quality Control - WAP Policy issuances are signed and sent under the authority of the Division Director or Program Manager.</p> |
| <ul style="list-style-type: none"> Reviewing subrecipient reports and following-up on areas of concern. | <p>Review of Subgrantee report responses are conducted by the assigned Program Officer. Follow up communication is initiated by the assigned Program Officer.</p> <p>Supervision/Quality Control - All close out letters and report responses are reviewed by the Project Manager, Program Manager and if required the Division Director.</p> |
| <ul style="list-style-type: none"> Monitoring subrecipient budgets. | <p>Budget compliance review occurs on a monthly basis conducted by the Contract Specialist and by the Assigned Program Officer.</p> <p>Supervision/Quality Control - Final annual budget compliance is conducted by</p> |

**Texas Department of Housing and Community Affairs
Program Monitoring - DOE & LIHEAP Weatherization
July 2003**

| Monitoring Responsibilities / Requirements | TDHCA's Procedures ² to Ensure Compliance |
|---|---|
| | |
| <ul style="list-style-type: none"> Performing site visits to subrecipient to review financial and programmatic records and observe operations. | Please see Subrecipient Monitoring listed above. |
| Official written policies and procedures exist establishing: | |
| <ul style="list-style-type: none"> Communication of Federal award requirements to subrecipients. | <p>Annual Weatherization Contract, Section 2, Section 5, and Section 15 identify applicable State and Federal requirements, including Audit requirements.</p> <p>Supervision/Quality Control - Contract is reviewed and approved by the legal section of TDHCA on an annual basis prior to release to subgrantees.</p> |
| <ul style="list-style-type: none"> Responsibilities for monitoring subrecipients. | 6 Program Officers are responsible for the annual onsite monitoring of the subgrantees. Monthly financial reports and funding request re-reviewed by the Contract Specialist. |
| <ul style="list-style-type: none"> Process and procedures for monitoring. | <p>The Texas Department of Housing and Community Affairs (TDHCA) monitor's all Weatherization Assistance Program (WAP) subgrantees at least once a year for contract and federal program compliance. Training and Technical Assistance (T&TA) is provided to the subgrantees, as necessary during the monitoring process. Subsequent monitoring is conducted by assigned staff members to ensure that corrective actions are implemented. If a subgrantee continues to demonstrate deficiencies, a team of TDHCA Program Officers may conduct an additional monitoring visit and provide additional T&TA as needed.</p> <p>Monitoring is scheduled in relation to a risk based management assessment. Primary considerations consist of: contract amount, number and gravity of previous findings, status of finding resolution, and submission and condition of annual independent audit. TDHCA conducts monthly desk reviews of expenditures and production levels. Scheduling variance may result due to availability of staff, local production levels, geographic and climatic considerations.</p> <p>TDHCA established a goal to conduct onsite inspection of 10% of all units completed with Weatherization funds and 10% of all client files. TDHCA concentrates on completed units whose work completion dates are less than 60 days from the date of the monitoring. Additional units are inspected should a sufficient number of units fail to meet these criteria. Financial management control and the quality of work performed is the primary focus of the monitoring process. The monitoring also includes a review of health and safety procedures, energy audits and client education procedures.</p> <p>Monitoring is conducted to ensure weatherization programs are managed within federal and state guidelines and that eligible low-income households are receiving quality and appropriate weatherization of their homes.</p> |
| <ul style="list-style-type: none"> Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control. | Subgrantees are required to respond to monitoring reports within 30 days of receipt. Inadequate or insufficient responses are noted in a subsequent report to the subgrantee and additional information or clarification is requested. Additional data may be requested in an effort to achieve closure to pending issues. This process continues until assigned Program Officer determines that the report can be closed. |
| <ul style="list-style-type: none"> Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity's accounts. | As questioned/unallowable costs are reimbursed from the subrecipient from non-federal funds, Accounting works with the Portfolio Management and Compliance Division to properly credit the correct federal funds accounts. |

**Texas Department of Housing and Community Affairs
Program Monitoring - DOE & LIHEAP Weatherization
July 2003**

| Monitoring Responsibilities / Requirements | TDHCA's Procedures² to Ensure Compliance |
|---|---|
| Information and Communication: | |
| <ul style="list-style-type: none"> • Standard award documents used by the non-Federal entity contain: <ul style="list-style-type: none"> ⇒ A listing of Federal requirements that the subrecipient must follow. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria. ⇒ The description and program number for each program as stated in the Catalog of Federal Domestic Assistance (CFDA). If the program funds include pass-through funds from another recipient, the pass-through program information should also be identified. ⇒ A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements | <p>Annual Weatherization Contract, Section 2, Section 5, and Section 15 identify applicable State and Federal requirements including Audit requirements.</p> <p>Supervision/Quality Control - Contract is reviewed and approved by the legal section of TDHCA on an annual basis prior to release to subgrantees.</p> |
| <ul style="list-style-type: none"> • A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient. | <p>All WAP Program CFDA numbers are identified in the State Plans distributed to all subgrantees on an annual basis. Current WAP contracts are renewed rather than awarded on an annual basis pending satisfactory completion of the program year.</p> <p>Supervision/Quality Control - State plans including the CFDA numbers are reviewed by the Project Manager, Program Manager and Division Director prior to distribution to all Subgrantees. Contract renewal is not automatic and subject to annual performance review</p> |
| <ul style="list-style-type: none"> • Procedures are in place to provide channels for subrecipients to communicate concerns to the pass-through entity. | <p>Subgrantees must sign the WAP contract prior to the release of any WAP funding. All compliance requirements are identified or referred to in the WAP contract.</p> <p>Supervision/Quality Control - Contract specialist review all contracts and contracts are countersigned by TDHCA Executive Director prior to the release of any WAP funds.</p> |
| Monitoring: | |
| <ul style="list-style-type: none"> • Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, on-site monitoring reviews of subrecipients, and timely resolution of audit findings. | <p>TDHCA maintains all records in compliance with current state guidelines and follows established archive procedures.</p> <p>Supervision/Quality Control - All archive procedures are conducted by the Fiscal and Planning staff of the Section with oversight from the Project Manager.</p> |
| <ul style="list-style-type: none"> • Supervisory reviews performed to determine the adequacy of subrecipient monitoring | <p>All subgrantees have been provided contact data for section staff and have access to phone/fax and email capability. In addition TDHCA staff avails itself to the subgrantees at all trainings, conferences and meetings.</p> <p>Supervision/Quality Control - Project Manager and Program Manager and Division Director maintain daily availability to all subgrantees via voice mail and email.</p> |
| <ul style="list-style-type: none"> • Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, on-site monitoring reviews of subrecipients, and timely resolution of audit findings. | <p>Online reporting system in use currently tracks and logs submission of monthly financial reports and programmatic reports. The Risk Assessment Module allows for the tracking and disposition of audits and onsite monitoring as well as significant issues and date of resolution.</p> <p>Supervision/Quality Control - Online system and Risk Assessment Module is available for review by Project Manager, Program Manager and Division Director.</p> |
| <ul style="list-style-type: none"> • Supervisory reviews performed to determine the adequacy of subrecipient monitoring | <p>All monitoring reports are initiated by the assigned Program officer and reviewed by the Project Manager.</p> |

**Texas Department of Housing and Community Affairs
 Program Monitoring - DOE & LIHEAP Weatherization
 July 2003**

Positions responsible for ensuring compliance include the following: *Needs to Be completed.*

| Position Title | Minimum Qualification for Employment | Annual Training Requirements |
|-----------------------|---|--|
| Program Manager | Four year degree or experience | While periodic training is provided to staff, annual training requirements have not been formally defined. |
| Project Manager | Four year degree or experience | |
| Program Officers | Four year degree or experience | |
| Training Officers | Four year degree or experience | |

Texas Department of Housing and Community Affairs

Section 8 Program

- *Summary Report of Prior Audit Issues Since FYE 8/31/99*
- *Status of Prior Section 8 Noncompliance Issues Identified in 2000
(by HUD and External Auditor)*
- *Program Monitoring*

Texas Department of Housing and Community Affairs - Section 8 Summary Report of Prior Single Audit Issues Since Fiscal Year End August 31, 1999

| <i>Ref. #</i> | <i>Report Date</i> | | <i>Report Name</i> <i>Audit Scope</i> | <i>Status</i> | | <i>Target</i> <i>Date</i> |
|---------------|--------------------|--|--|---------------|-------------|------------------------------|
| | <i>Auditors</i> | | | <i>Codes*</i> | <i>Date</i> | |
| 300 | 02/24/03 | | Compliance with Requirements & IC Over Compliance - A-133. | Ix | 02/24/03 | |
| | KPMG | | Statewide Federal Single Audit for FYE August 31, 2002 (SAO contract with KPMG). | Ixx | 07/18/03 | |

Division: Community Affairs - Section 8

Issue: Implement additional review control procedures over income and housing assistance payment calculations, data entry and proper citizenship documentation.
Questioned Cost: \$3,027 due to improper calculations of income (1 of 40 contracts), utility allowances (1 of 40), incorrect accounting of a housing assistance payment (1 of 40), an incorrect effective date (1 of 40), and lack of documentation supporting US citizenship (1 of 40).

Status: 07/18/03 - Hud Letter dated July 18, 2002 closed finding based on the Department's response.

| | | | | | | |
|-----|----------|--|--|-----|----------|--|
| 301 | 02/24/03 | | Compliance with Requirements & IC Over Compliance - A-133. | Ix | 02/24/03 | |
| | KPMG | | Statewide Federal Single Audit for FYE August 31, 2002 (SAO contract with KPMG). | Ixx | 07/18/03 | |

Division: Community Affairs - Section 8

Issue: Implement controls to ensure that formal notification of failure to meet housing quality standards by owners is performed and documented; that follow up of the correction of these deficiencies is conducted within prescribed time frames; and that quality controls are put in place by program managers for assurance of supporting documentation and timely correction of deficiencies.
Questioned Cost: \$3,795 due to housing assistance payments subsequent to the due date for correction of deficiencies (2 of 40 contracts for life threatening deficiencies and 2 of 40 for non-life threatening).

Status: 07/18/03 - Hud Letter dated July 18, 2002 closed finding based on the Department's response.

| | | | | | | |
|-----|----------|--|--|-----|----------|--|
| 302 | 02/24/03 | | Compliance with Requirements & IC Over Compliance - A-133. | Ix | 02/24/03 | |
| | KPMG | | Statewide Federal Single Audit for FYE August 31, 2002 (SAO contract with KPMG). | Ixx | 07/18/03 | |

Division: Community Affairs - Section 8

Issue: Ensure the completion of quality inspections within required time periods and develop and implement a quality control review process of inspection forms to ensure their completion by staff.
Questioned Cost: \$16,239 due to housing assistance payments subsequent to inspection deadlines (7 of 30 inspections) and incomplete inspection documentation (1 of 30).

Status: 07/18/03 - Hud Letter dated July 18, 2002 closed finding based on the Department's response.

Texas Department of Housing and Community Affairs
Status of Prior Section 8 Noncompliance Issues Identified in 2000

The State Auditor's Office reported the following in its report, *An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs*, dated June 2003.

Although it has made some progress, the Department has not fully corrected several Section 8 noncompliance issues. These issues were identified in two separate reviews conducted in 2000: the U.S. Department of Housing and Urban Development (HUD) conducted a management review and it also required the Department to hire an external auditor to conduct a program specific audit of Section 8. Both reports covered the same time period and found similar problems. Continued noncompliance could put the Department at risk of losing its Section 8 funding. The following table details the status of each prior issue that we reviewed.

| Table Included in SAO Report, <i>An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs</i> | | | | | |
|--|---|--|--|--|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | Department Response and Status as of July 18, 2003 |
| Waiting list administration | <p>HUD found that the Department was not including all information required by regulation on its waiting lists.</p> <p>The external auditor found that the Department could not provide records required to document that applicants whose names reached the top of the waiting list were given the opportunity to participate in the program and were selected properly.</p> | <p>HUD required that the Department maintain the waiting list and that the waiting list include all required data.</p> <p>The external auditor recommended that the Department maintain documentation (waiting list and notification letters) sufficient to show that applicants were properly contacted and/or admitted into the program.</p> | <p>The Department submitted a revised waiting list with all required information. HUD closed this issue on February 20, 2001, subject to a follow up visit.</p> <p>The external auditor was unable to obtain sufficient documentation to test waiting list management.</p> | <p>The Department's waiting lists include blanks for the required data elements cited by an earlier HUD audit. However, we found that 28 instances in which blanks had not been filled out on files that were prepared after February 20, 2001. These discrepancies occurred at six different local operators.</p> <p>Additionally, 3 (15 percent) of 20 files we tested did not contain the notification letter as the external auditor had recommended. (These 20 files were prepared after HUD had issued its report.) The Department's Administrative Plan also requires that the notification letter be in the tenant file.</p> | <p>07/18/03 - As of May 1, 2003, the Department now maintains the waiting lists for all program operators and ensures that all required elements on the Section 8 waiting lists are complete.</p> <p>The Department developed and implemented a quality control checklist form in January 2003 that is used in the contract review process to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that their name has come up on the first come first served waiting list.</p> <p>02/20/01- HUD letter dated 2/20/02 closed this issue based on information submitted by the Department, subject to a follow up visit.</p> <p>01/03/01-Management reported HUD issue as implemented.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, <i>An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs</i> | | | | | Department Response and Status as of July 18, 2003 |
|--|---|--|--|---|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| Determination of rent reasonableness | <p>HUD found that the Department was not properly determining the reasonableness of rent. The only data the Department considered in determining rent reasonableness was the address and rents for two properties.</p> <p>The external auditor found that the Department did not follow its own rent reasonableness determination procedures. For example, the Department used two-bedroom units as comparison units for three-bedroom units.</p> | <p>HUD required the Department to develop a written method for conducting rent reasonableness using three comparable properties and considering all factors the Department is required to consider by law.</p> <p>The external auditor recommended that the Department implement procedures to properly document its rent reasonableness determinations and follow its own policies.</p> | <p>HUD closed this issue based on written procedures the Department submitted on April 23, 2001.</p> <p>In its corrective action plan, the Department stated that it implemented written procedures to ensure that rent paid to property owners is reasonable.</p> | <p>HUD requires the Department to ensure the rent charged to a program participant is similar to (1) other unassisted units in the marketplace and (2) other unassisted units on the premises.</p> <p>The 20 files we reviewed contained Certification of Rent Reasonableness forms. (These 20 files were prepared after HUD had issued its report.) However, two of these forms did not properly document a comparison of the rental unit to three comparable properties as required by HUD. In one of these cases, it appears that the Department took reasonable steps to find three comparable properties, but failed. In addition, one tenant was authorized housing for which he had failed the affordability test.</p> | <p>07/18/03-Revised the contract review process in January 2003 to ensure that Section 8 rent reasonableness is adequately tested and documented. The Department developed and currently is using a quality control checklist form to ensure that rent reasonableness is properly documented.</p> <p>07/10/01-HUD letter dated 07/10/01 closed this issue based on information submitted by the Department on 04/23/01.</p> <p>03/04/01-Management reported HUD issue as implemented.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, <i>An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs</i> | | | | | |
|--|--|---|--|--|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | Department Response and Status as of July 18, 2003 |
| Documentation of required information | <p>HUD found that tenant files were incomplete or lacked critical information. Specifically, the files lacked documentation of:</p> <ul style="list-style-type: none"> ▪ Citizenship or immigration status ▪ Third-party income verification ▪ Proper calculation of total tenant payment and rent to owner ▪ Verification of family size and composition ▪ Proper rent reasonableness and rent adjustments <p>The external auditor found that the Department maintained incomplete or inaccurate total</p> | <p>HUD required the Department to implement a process to ensure that all filed include proper documents. HUD required the Department to correct the files for the sample items that HUD reviewed.</p> <p>The external auditor recommended that the Department develop procedures to ensure that</p> | <p>HUD closed this issue on February 20, 2001, subject to a follow up visit based on documentation provided by the Department. These documents included a copy of a new procedure for review and approval of tenant files and a checklist to be used to ensure that all required documents are maintained in each resident's file.</p> <p>The Department asserted that it had made corrections in its files.</p> <p>In its corrective action plan, the Department stated that it had implemented the recommended</p> | <p>It appears that the Department has corrected most of the problems in old files regarding the five areas of documentation that HUD listed as absent. All of the new files have the documentation that was specifically mentioned in the HUD report.</p> <p>Five (25 percent) of the 20 files (prepared after HUD's report) we tested did not contain at least one of the documents required by HUD or recommended by the external auditor.</p> | <p>07/18/03- Developed and implemented a quality control checklist form in January 2003 that is used in the contract review process to ensure that Section 8 tenant files contain all required documents. The form includes review and verification of income, allowances for expenses, utility allowances, tenant rent calculations, unit inspection, and rent reasonableness.</p> <p>08/02/01-External auditor noted that the Department had implemented this issue.</p> <p>02/22/01-Management reported HUD issue as implemented.</p> <p>02/20/01-HUD letter dated 2/20/01 closed this issues based on information submitted by the Department, subject to follow-up at the next site visit.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs | | | | | Department Response and Status as of July 18, 2003 |
|---|--|---|---|--|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | tenant payment and housing assistance payment computation worksheets in the files. It also found that the Department did not maintain required documentation for the initial determination of eligibility and program admission. | worksheets are reviewed for accuracy and that the total family contribution is affordable for the tenant. It also recommended that the Department develop and implement a review process to ensure program requirements and procedures are followed regarding completion of applications, release forms, and privacy act notices. | review procedures. | | |
| Use of the correct lease addendum forms | HUD found that the Department was not using the most current version of the addendums. | HUD directed the Department to use the correct forms and specified that all files must be corrected before March 2001. | HUD closed this issue on July 10, 2001 based on evidence the Department provided indicating that it was identifying cases in which the wrong form was used and correcting them. | In our sample of 20 files (prepared after HUD issued its report), we found one instance in which the Department used the incorrect lease addendum. | 07/18/03- - In 2002 disposed of all old versions of the Section 8 lease addendum form which are no longer available to staff or local operators and reviewed Section 8 files to ensure that they do not include incorrect or obsolete forms. 07/10/01- HUD letter dated 07/10/01 cleared this issue. |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs | | | | | Department Response and Status as of July 18, 2003 |
|---|---|--|---|---|--|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | The external auditor found that the Department was using outdated addendum forms. | The external auditor recommended that the Department develop a review process to ensure that it uses the correct forms. | In its corrective action plan, the Department stated that it had implemented the recommended review process. | | |
| Quality control inspections | <p>HUD concluded that the Department had not conducted the majority of supervisory reviews of housing inspections to ensure quality control as required by federal regulations. There were no records to document that these inspections occurred.</p> <p>The external auditor found that the Department was unable to provide sufficient documentation for required annual quality control re-inspections. It also</p> | <p>HUD required the Department to implement a plan to perform supervisory quality control inspections on a representative sample of housing inspections and keep a log to document the results of those reviews.</p> <p>The external auditor recommended that the Department follow all procedures in the administrative plan for inspections, implement</p> | <p>HUD closed this issue on July 10, 2001 based on the Department's certification that it had inspected 49 units during fiscal year 2001 and a list of the addresses of the inspected units that the Department provided.</p> <p>The external auditor was unable to perform any tests of the housing quality control re-inspections or on the failed inspections.</p> | <p>We found evidence that the department is performing the required reinspections and is sufficiently documenting them.</p> | <p>June 2003 - SAO found evidence that the Department is performing the required reinspections and sufficiently documenting them.</p> <p>07/10/01-HUD letter dated 07/10/01 closed this issue based on certification provided by the Department.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs | | | | | Department Response and Status as of July 18, 2003 |
|---|---|---|---|---|--|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | could not support that required repairs on failed units had been completed within the allowable time. | procedures regarding follow-up for failed units, and maintain documentation to support these procedures. | | | |
| Implementation of a family self-sufficiency program | HUD found that the Department was not operating a family self-sufficiency program as required. The Department had not has a valid exemption for this provision in place since 1997. | HUD required the Department to implement a self-sufficiency program as required or request an exception. HUD stated that it is essential that the Department take immediate action to clear this finding. | The issue remains open. The Department must either submit a plan to HUD or submit an exemption request. | The Department has indicated that it is beginning to address this finding. | <p>03/14/01-Management submitted letters to HUD requesting exemption from this requirement.</p> <p>03/14/01through 05/06/03 – Several communications occurred between HUD and the Department working through the issue.</p> <p>05/06/03 - Communications from HUD dated 4/25/03 indicate that the response pending from HUD regarding the adequacy of the FFS Action Plan submitted was overlooked and that the issue would be considered soon. Management is also considering whether community action agencies (CAAs) could provide FSS services to Section 8 voucher holders on behalf of the Department. A target date for these considerations has not been established due to anticipated time delays in coordinating and obtaining information/responses from the CAAs.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, <i>An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs</i> | | | | | Department Response and Status as of July 18, 2003 |
|---|--|---|--|---|--|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | | | | | 07/18/03- Letter from HUD approving a request for exception was received by the Department 7/10/2003. HUD approved the implementation of a pilot program in the Brazoria County area. |
| Annual re-examination of family income | HUD found that the Department was not conducting the required annual reexaminations of family income at least every 12 months. | HUD required the Department to establish a quality control method to verify that annual reexaminations are completed at least every 12 months for all participating families. Additionally, it required Department to submit a schedule of all family reexaminations that indicates the date of the last reexamination. IT also required the Department to certify that all Section 8 participants' reexaminations are complete before March 1, 2001. | | Of the 20 files we examined (prepared after HUD issued its report), 13 should have undergone the annual examination of family income. However, the department had not performed this work for three (23 percent) of these 13 files. | 07/18/03 – Implemented an annual file review to re-examine family income for each Section 8 participant. The Department developed and is currently using a quality control checklist form that has been added to the contract review process to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that vouchers may be available to them. The form includes review and verification of income, allowances for expenses, utility allowances, tenant rent calculations, unit inspection, and rent reasonableness. Also, for new admissions, the Department has implemented a review of the income limits, selection form waiting list, letters of notification, and voucher certification. The Regional Coordinator will complete this form for new admissions, annual renewals, interim rent adjustments, and moves to other units. Upon completion the Regional |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs | | | | | Department Response and Status as of July 18, 2003 |
|---|---|---|---|---|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | The external auditor found that 6 of 40 files tested lacked income verification documentation or contained incomplete income verification documentation. | The external auditor recommended that the Department develop a participant file review system to ensure income verification is proper and complete and performed at least annually. | | | <p>Coordinator places the form in the contract file for final review and approval by the Section 8 Coordinator/Manager who will conduct a detailed review.</p> <p>07/10/01 - HUD letter dated 07/10/01 closed this issue based on information submitted by the Department.</p> <p>04/20/01-Management submitted documentation to HUD to clear this issue.</p> |
| Supervisory and review process | <p>The external auditor found that many files it tested lacked required documentation or contained incomplete documentation.</p> <p>The external auditor found that the Department allowed overpayments to be</p> | <p>The external auditor recommended that the Department develop a procedure for the review of tenant files and assign the task of reviewing these files to a Section 8 Housing staff member in a supervisory position.</p> <p>The external auditor recommended that the Department develop a review</p> | <p>The Department reports that it has implemented a new procedure whereby all files are reviewed and all calculations are checked to ensure proper and complete documentation.</p> <p>sIn its corrective action plan, the Department stated that it implemented the</p> | <p>The Department has implemented written procedures for supervisory review of tenant files.</p> <p>We found evidence of some supervisory review in the 20 files we reviewed (the files were prepared after HUD issued its report). This evidence consisted of completed document checklists in all 20 files and evidence of review of calculations on the Housing Choice Voucher (found in 19 of the 20 files). However, 25 percent of these files did not contain at least one required document.</p> | <p>07/18/03 – All contracts are reviewed by the Program Coordinator/Manager and the Regional Coordinators. Program staff is currently using a quality control checklist form to ensure that Section 8 tenant files contain all required documents. The Regional Coordinator will complete this form for new admissions, annual renewals, interim rent adjustments, and moves to other units. The form is placed in the contract file for final review and approval by the Section 8 Coordinator/Manager.</p> <p>07/10/01-HUD letter dated 07/10/03 cleared this issue based on management statements of procedures implemented.</p> |

Status of Prior Section 8 Noncompliance Issues Identified in 2000

| Table Included in SAO Report, <i>An Audit Report on Selected Assistance Programs at the Department of Housing and Community Affairs</i> | | | | | Department Response and Status as of July 18, 2003 |
|--|--|---|---|---|---|
| Issue Area | Issue Description | Corrective Action Recommended | HUD or External Audit Status Determination | State Auditor's Office Assessment of the Department's Current Status and Recommendations | |
| | made. The auditor found \$614 (2.1 percent) in overpayments out of the \$28,809 in payments it tested. | process to ensure payments are correct and supported by proper documentation. | recommended review. | | |

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Program Monitoring Details:

| Monitoring Responsibilities / Requirements | TDHCA's Procedures¹ to Ensure Compliance |
|---|---|
| Record Keeping and Documentation | <p>Written policies have been reviewed and revised to comply with the Quality Housing and Work Responsibility Act (QHWRA) and other relevant regulatory and statutory requirements. Contract files are submitted to Section 8 from the Local Operator and distributed to the Regional Coordinator. An Internal HAP Routing Sheet checklist which documents contract information regarding the date of receipt, start date, date entered, date forwarded, missing documentation and Supervisor review is included with contract file. Regional Coordinator reviews and approves contract file. Regional Coordinator completes a SEMAP (Section Eight Management Assessment Program) quality control checklist.</p> <p>Supervision/Quality Control - The Program Coordinator performs a final review and approval of the contract file.</p> <p>Other Comments - Appendix 5, Guidelines for Review and Approval of Tenant File, are in the Administrative Plan. The SEMAP quality control checklist was implemented for review of files 1/28/03.</p> |
| Waiting list | <p>Quality Control samples of applicants reaching the top of the waiting list and of admissions show that at least 98% of families were selected in accordance with TDHCA's policies and met the criteria that determined their places on the waiting list and their order of selection.</p> <p>The Local Operator conducts application intake in the field office. The Local Operator sends applications to Regional Coordinator who enters applicant information in the Genesis data system. The Program Coordinator reviews all new admissions, except portability, for verification of waiting list. Routing Sheet checklist is included with contract to document that the waiting list is included in contract package.</p> <p>Supervision/Quality Control - Program Manager maintains a log of random files selected for SEMAP review.</p> <p>Other Comments - As of May 1, 2003, the Department now maintains the waiting lists for all Local Housing Assistance Program (HAP) Operators. The Regional Coordinator notifies the applicant, in writing, to contact the Local Operator for the date and time to complete eligibility paperwork.</p> |
| Rent Reasonableness | <p>At least 98% of files are reviewed to determine that each unit leased has reasonable rents based on comparables of unassisted units within the same area. Local Operator completes the Rent Reasonableness form to ensure that a fair rent is paid for units selected for participation in the Section 8 program. The Regional Coordinator and Program Coordinator review the Rent Reasonableness form. Program Coordinator reviews all files for rent reasonableness; a sampling log is not kept at this level. A guideline for conducting rent reasonableness can be found in Appendix 4 of the Administrative Plan.</p> <p>Supervision/Quality Control - The Program Manager maintains a log of random files selected for SEMAP review. The sample size is based on HUD SEMAP requirement.</p> |
| Determination of Adjusted Income | <p>At least 90% of files are reviewed to establish third party verification, program allowances, and that the use of appropriate utility allowance has been properly obtained to determine the correct calculation of rent. Local Operator obtains verification documentation regarding program allowances (dependent, elderly/disabled, child care, disability assistance, and medical). The Local Operator completes the Total Tenant Payment calculation and rent calculation. The Regional Coordinator re-verifies and recalculates supporting documentation. Regional Coordinator reviews for third party verification.</p> <p>Other Comments - Effective 1/2002 Section 8 Regional Coordinators have access to view and verify child support payments from the Office of Attorney General Child Support Website. Effective 10/1/2002 TDHCA entered into a contract with the Texas Workforce Commission and began third party income verification on TWC's online system.</p> |

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| Utility Allowance | TDHCA reviews utility rate data within the last 12 months and adjusts the utility allowance if there has been a change of 10% or more in a utility rate since the last time the utility allowance was revised. The Department has contracted with Nelrod Company for annual utility allowance update. |
| Housing Quality Standards (HQS) Quality Control Inspections | <p>Section 8 re-inspects a random sample of budgeted units under contract during the PHA fiscal year. This meets the sample size required by HUD SEMAP for quality control. The re-inspected sample is to be drawn from recently completed HQS inspections performed during the three months preceding re-inspection.</p> <p>Local Operators conduct an annual HQS inspection for all units. Regional Coordinators annually re-inspect a sample of those units inspected for HQS by the local operator in the three months preceding the Department's re-inspection. The sample size is based on HUD SEMAP requirement</p> <p>Supervision/Quality Control - The Program Manager maintains a log for all SEMAP re-inspections performed by the Section 8 staff.</p> <p>Other Comments - A revised plan for Quality Control Inspections process was developed in March 2003. The sample selected is approved by the Program Manager to ensure timeliness with the required three month period. The Program Manager will review all inspection booklets (Form HUD 52580-A) to ensure that all required sections are properly completed.</p> |
| HQS Enforcement | <p>A quality control sample of case files that include any failed HQS inspection shows that, for all cases sampled, any cited life-threatening HQS deficiencies were corrected within 24 hours from the inspection and all other cited HQS deficiencies were corrected within no more than 30 calendar days from the inspection. The Regional Coordinator follows up all failed SEMAP inspections.</p> <p>Supervision/Quality Control - SEMAP inspection deficiency files are reviewed and maintained by the Program Manager. Program Manager logs and maintains all files for failed inspections.</p> <p>Other Comments - In March 2003 Section 8 staff developed and implemented the use of a standard notice letter in duplicate to notify property owners that life-threatening HQS deficiencies must be corrected within 24 hours. Staff developed and began using a similar standard notice letter to notify owners of non-life threatening deficiencies.</p> |
| Payment Standards | <p>TDHCA has adopted HUD's published Fair Market Rent (FMR) as payment standards for each FMR by unit size. TDHCA has raised some areas to 110% of the adopted FMR standards, which was approved by the TDHCA Board. HUD publishes new FMRs annually.</p> <p>Supervision/Quality Control - Review conducted by Section 8 Manager.</p> |
| Annual Reexaminations | <p>Contracts must be renewed on an annual basis. Local Operators conduct the reexaminations. The reexamination file is recertified and completed for payment by the Regional Coordinator. Files are then forwarded to Program Coordinator for final review and approval. TDHCA completes reexamination for each participating family at least every 12 months. Tenants may choose to remain in original unit or move to another unit on renewal date. Reexamination reports are submitted monthly to Program Manager for a two to three month period. Reexaminations are to be entered at least 30 days prior to reexamine date.</p> <p>Other Comments - Appendix 3, Annual Contract Renewal Procedure, is in the Administrative Plan.</p> |
| Correct Tenant Calculations | <p>The tenant's income is calculated by the Local Operator and recalculated by the Regional Coordinator, including calculation of tenant rent and rent to owner based on income, allowances, and deductions. Section 8 staff has implemented an automated total tenant payment and rent calculation worksheet to ensure accuracy.</p> |

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| Pre-contract HQS inspections | Each newly leased unit must pass HQS prior to beginning date of the assisted lease and HAP contract. Units are inspected and passed by the Local Operator on or before the effective date of HAP contract. Program Coordinator re-verifies the inspection book date for final approval. A completed "passed inspection" book must be presented with contract package before approval of landlord payment. Local Operators receive training and updated memorandums to keep them current on HQS requirements. |
| Annual HQS Inspections | Each unit under contract is inspected annually. Trained and qualified Local Operator inspects units. Regional Coordinator reviews inspection booklet for accuracy and completeness. The tenant may choose to remain in unit or request inspection of a new unit on renewal date. Supervision/Quality Control - Final review is performed by Program Coordinator. |
| Lease Up | TDHCA is required to obtain a 95% lease up rate. Each Regional Coordinator is responsible for lease up of their assigned areas. Current lease up information is available on HUD Program and Indian Housing Information Center (PIC) website for management review. TDHCA generates an in house report which contains monthly lease up percentages. Supervision/Quality Control - Area lease up monitored by Program Manager. Reports are provided monthly to management for review on lease up. |
| Family Self Sufficiency (FSS) | A Family Self Sufficiency (FSS) Program must either be implemented in accordance with the mandated minimum program requirements along with submission of a revised Action Plan, or a request for an exception to the FSS Program mandatory size must be submitted to the respective HUD Office. The Department submitted letters requesting an exception of the FSS Program to San Antonio and Fort Worth Offices in November 2002. Additionally, the Department submitted a draft of the FSS Action Plan requesting that implementation of a model program in Brazoria County, using the Brazoria County Local Operator, be approved to serve as the model in fulfilling the FSS requirement of the mandatory size for all three (3) HUD service regions. Other Comments - Letter from HUD approving request was received by Department 7/10/2003. |
| OMB Circular No. A-133 Compliance Supplement – Provisional 6/97: | Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements. Each report is also reviewed for findings, reportable conditions, and material weaknesses. Expenditures reported in the audit report are reconciled to the Department's accounting records. If a management letter is issued in conjunction with the audit, the management letter is also reviewed for issues. When deficiencies or findings for general requirements and Department programs are noted on the report, management must submit a response and planned corrective action. The response is reviewed and analyzed by Department staff. Upon the receipt of an acceptable response, the findings are cleared and the audit report is accepted. Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action. |
| General Requirements | |

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| Activities Allowed or Un-allowed | <p>Section 8 provides rental assistance to families of low and very low income. HUD requirements and program requirements are listed in the HUD Guidebook 7420.10G and the Section 8 Administrative Plan. Program area staff performs technical assistance as needed. Cluster training and conference training activities also allow for the exchange of allowable activities and provides clarification on any updates mandated during the contract period. Technical reviews are followed up by written communication, telephone contact, and email to ensure audit findings are addressed and corrected in a timely manner. Recertification letters are mailed to subrecipients 90 to 120 days prior to annual renewal dates to aid in the timely review and submission of renewal contracts.</p> <p>Supervision/Quality Control - Section 8 staff conduct onsite visits to assure all activities conducted are allowable. Visits include re-inspection, opening of waiting list, monitoring, and providing technical assistance.</p> |
| Allowable Costs/Cost Principles | <p>Allowable cost policies and procedures are consistent with HUD requirements. Expenditure report is submitted to management on a monthly basis by the Section 8 accountant.</p> <p>Supervision/Quality Control - Manager reviews expenditure report monthly. This review includes a review of administrative costs to insure that they are allowable.</p> |
| Cash Management | Cash Management is handled by the Accounting Department. |
| Davis-Bacon Act | N/A |
| Eligibility | <p>Eligibility of tenants is determined by Local Operator and TDHCA based on eligibility guidelines outlined by HUD Code of Federal Regulations, HUD Guidebook 7420.10G, and TDHCA Administrative Plan. Local Operators are trained in reviewing required documentation for income eligibility and affordability of unit. Eligibility verification must be presented and documented at the time a Housing Choice Voucher is issued.</p> <p>All new contracts are reviewed by at least one supervisor and one Regional Coordinator staff to ensure accuracy and that eligibility requirements were properly met. Management has developed and implemented the use of an in-house Quality Control Checklist to minimize errors and expedite the management review process.</p> |
| Equipment and Real Property Management | N/A |
| Matching, Level of Effort, Earmarking | N/A |
| Period of Availability of Federal Funds | N/A |
| Procurement and Suspension and Debarment | N/A |
| Program Income | N/A |
| Real Property Acquisition and Relocation Assistance | N/A |
| Reporting | <p>Section 8 provides complete family history reporting through the HUD required electronic reporting system MTCS, 50058, PIC, SEMAP, and quarterly utilization reporting.</p> <p>Regional Coordinators enter data in the computerized systems and print 50058 forms, which are included in the contract package after review. The 50058 forms provide the family history and recalculate the Housing Assistance Payment (HAP), which also serves as a second check on rent calculations. The Program Coordinator also checks the 50058 forms for accuracy. Current program information is available to Program Manager via PIC (Program and Indian Housing Information Center) online system.</p> |

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| Sub recipient Monitoring <i>(Identifying how the Department is monitoring other requirements substantially addresses this requirement.)</i> | Four Regional Coordinators and one Assistant Regional Coordinator are responsible for the monitoring of approximately 37 Local Operators and the accuracy of their paperwork. Sub contractors are monitored for their capability to administer the program in their respective area. 2071 vouchers are distributed among 35 counties. Local Operator training rallies are conducted to provide on-going technical assistance and provide new and updated materials as needed. Local Operators are supplied with the Administrative Plan, PHA five year plan, and the HUD Housing Choice Voucher guidebook 7420.10G. Supervision/Quality Control - The Manager reviews monthly status reports and breakdown reports to identify performance levels and target areas that need improvement. Policies and procedures are reviewed as updates and changes are received to ensure effective communication and consistent implementation. |
| Special Tests and Provisions <i>(Consider in conjunction with Program Requirements above.)</i> | Control recommendations are reviewed along with current policy to update and revise policy in accordance with rules and regulations. Supervision/Quality Control - Management conducts approximately 95% contract review for electronic reporting system. Management admonishes and adheres to program compliance requirements. |
| Part 3 Compliance Requirements, M. Subrecipient Monitoring: A pass-through entity is responsible for: | |
| Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements. | Section 8 staff prepares Local Operator Contracts. Sub recipient is identified in Local Operator contract. The contract lists responsible individual for the administration of the program for their respective area. Each contract is awarded a fee in accordance with lease up rate. Local Operator fee amount varies per contract area. LO contracts are effective for a 5-year period. Supervision/Quality Control - Contracts are routed through the internal procedures for approval. Contracts are then forwarded for review and approval in accordance with HUD rules and regulations by the TDHCA's legal division (Section 8 staff attorney). Contracts must receive final approval from Executive Director. |
| Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements. | N/A |
| Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings. | Within 60 days after the end of their fiscal year, each subrecipient is required to submit an Audit Certification Form. Each subrecipient must self-certify whether they are subject to Single Audit requirements (whether the \$300,000 expenditure threshold has been exceeded). If the subrecipient certifies that the Single Audit is not applicable to them, they are current and no further audit requirements apply. If they certify that the Single Audit is applicable, the Single Audit is due within 9 months after the end of their fiscal year. Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements. Each report is also reviewed for findings, reportable conditions, and material weaknesses. Expenditures reported in the audit report are reconciled to the Department's accounting records. If a management letter is issued in conjunction with the audit, the management letter is also reviewed for issues. When deficiencies or findings for general requirements and Department programs are noted on the report, management must submit a response and planned corrective action. The response is reviewed and analyzed by Department staff. Upon the receipt of an acceptable response, the findings are cleared and the audit report is accepted. |

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| | <p>Supervision/Quality Control – A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| <p>Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.</p> | <p>N/A</p> |
| <p>Notes:</p> <ul style="list-style-type: none"> • <i>Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.</i> • <i>Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.</i> <p><i>The requirements for subrecipient monitoring are contained in the A-102 Common Rule, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.</i></p> | |

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| Part 6 Internal Control, M. Subrecipient Monitoring | |
| <p>Control Objectives: To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.</p> <p>Control Environment:</p> <ul style="list-style-type: none"> ➤ Establishment of "tone at the top" of management's commitment to monitoring subrecipients. ➤ Management's intolerance of overriding established procedures to monitor subrecipients. ➤ Entity's organizational structure and its ability to provide the necessary information flow to monitor subrecipients are adequate. ➤ Sufficient resources dedicated to subrecipient monitoring. ➤ Knowledge, skills, and abilities needed to accomplish subrecipient monitoring tasks defined. ➤ Individuals performing subrecipient monitoring possess knowledge skills and abilities required. ➤ Subrecipients demonstrate that: <ul style="list-style-type: none"> • They are willing and able to comply with the requirements of the award and • They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award. ➤ Appropriate sanctions taken for subrecipient noncompliance. <p>Risk Assessment: Key managers understand the subrecipient's environment, systems, and controls sufficient to identify the level and methods of monitoring required. Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:</p> <ul style="list-style-type: none"> ➤ Economic conditions. ➤ Political conditions. ➤ Regulatory changes. ➤ Unreliable information. ➤ Mechanisms exist to identify and react to changes in subrecipients, such as: <ul style="list-style-type: none"> ➤ Financial problems that could lead to diversion of grant funds. ➤ Loss of essential personnel. ➤ Loss of license or accreditation to operate program. ➤ Rapid growth. ➤ New activities, products, or services. ➤ Organizational restructuring. | |
| Responsible for performing mechanics of risk assessment | N/A |
| Responsible for providing input into risk assessment. | N/A |
| Responsible for providing results of technical assistance into risk assessment | N/A |
| Responsible for providing results of monitoring visits into risk assessment | N/A |
| Responsible for providing results of audit reviews into risk assessment | N/A |
| List other types of input entered into risk assessment and the responsibility for doing so. | N/A |

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| Control Activities: | |
| Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements. | Local Operator (LO) Contract defines the requirements for administering the Section 8 program and identifies the Local Operator. The contract is effective for a 5-year period. Regional Coordinator monitors Local Operator contracts, making changes and renewing contracts as needed. Program Coordinator periodically reviews Local Operator contracts. |
| Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program including the audit requirements of OMB Circular A-133. | Contractor's obligations are specified in Section 7 of the Local Operator HAP contract. Manager maintains communication with Local Operators and Local Officials regarding the administration of the program. |
| Subrecipient's compliance with audit requirements monitored using techniques such as the following: | |
| <ul style="list-style-type: none"> Determining by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB Circular A-133. | <p>Within 60 days after the end of their fiscal year, each subrecipient is required to submit an Audit Certification Form. Each subrecipient must self-certify whether they are subject to Single Audit requirements (whether the \$300,000 expenditure threshold has been exceeded). If the subrecipient certifies that the Single Audit is not applicable to them, they are current and no further audit requirements apply. If they certify that the Single Audit is applicable, the Single Audit is due within 9 months after the end of their fiscal year.</p> <p>Supervision/Quality Control - A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| <ul style="list-style-type: none"> If an audit is required, assuring that the subrecipient submits the report, report package or the documents required by OMB circulars and/or recipient's requirements. | <p>If a subrecipient is subject to a Single Audit, the audit is due within 9 months after the end of their fiscal year.</p> <p>Each Single Audit received by the Department is reviewed to ensure compliance with OMB Circular A-133 reporting requirements.</p> <p>Supervision/Quality Control - A peer review process is in place for audit review. Supervisor also reviews files for quality control. Copies of all audit letters are forwarded to program staff for their information and possible action.</p> |
| <ul style="list-style-type: none"> If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, following up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements. | <p>The Portfolio Management and Compliance (PMC) staff notifies Program staff when Single Audits are delinquent. Program staff is notified and copied on each audit deficiency letter. Although PMC audit staff is responsible for tracking audit deficiencies and follow-up, program staff has determined when to enforce sanctions.</p> |
| Subrecipient's compliance with Federal program requirements monitored using such techniques as the following: | |
| <ul style="list-style-type: none"> Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable. | <p>Regional Coordinators are responsible for the daily communication and monitoring with Local Operators. Regional Coordinator addresses individual performance issues. Program Manager/Program Trainer issues memorandums to Local Operators to provide updated information and program direction. Manager handles audit findings.</p> |
| <ul style="list-style-type: none"> Maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken. | <p>Phone Logs are maintained by Regional Coordinator to track program related issues. Regional Coordinators enter complaints regarding Local Operator in an ACCESS data base.</p> <p>Supervision/Quality Control - Program Manager periodically checks phone log. Manager handles all phone calls requesting management assistance for immediate resolution.</p> |

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| <ul style="list-style-type: none"> Regular contacts with subrecipients and appropriate inquiries concerning the Federal program | <p>Local Operators are supplied with current procedures of the Section 8 Program along with the Administrative Plan, Five Year PHA Plan, and an updated HUD Housing Choice Voucher Guidebook 7420.10G.</p> <p>Supervision/Quality Control - Policy issuances are authorized and sent by Program Manager.</p> |
| <ul style="list-style-type: none"> Reviewing subrecipient reports and following-up on areas of concern. | <p>Regional Coordinators are responsible for reporting current lease up rate and timely reexamination of assigned contracts. Bedroom Breakdown reports are forwarded to Local Operator on a monthly basis. The Local Operator is provided with copies of tenant renewal letters 90 to 120 days in advance of recertification.</p> <p>Supervision/Quality Control - Manager reviews monthly reports submitted by Regional Coordinators. Program Manager meets with each Regional Coordinator to review current bedroom breakdown report and discuss status of assigned areas. Program Manager addresses outstanding issues and assigns corrective actions to resolve deficiencies.</p> |
| <ul style="list-style-type: none"> Monitoring subrecipient budgets. | <p>Section 8 Local Operator budgets are not maintained by the Local Contractors but are maintained by TDHCA.</p> |
| <ul style="list-style-type: none"> Performing site visits to subrecipient to review financial and programmatic records and observe operations. | <p>Regional Coordinators will assume responsibility for subrecipient review. This will be accomplished by desk review and onsite monitoring visits. Program Manager in conjunction with SEMAP will assign subrecipients. Program staff will revise the monitoring checklist which was developed to include desk and onsite reviews. The review items will be designated between desk review and onsite review. Desk review of the appropriate items will be accomplished by the Regional Coordinator. Onsite items will be reviewed by the Regional Coordinator in conjunction with SEMAP review.</p> |
| <p>Official written policies and procedures exist establishing:</p> | |
| <ul style="list-style-type: none"> Communication of Federal award requirements to subrecipients. | <p>Local Operator Contract, Section 7, identifies applicable State and Federal requirements.</p> <p>Supervision/Quality Control - Contract is reviewed and approved by the legal section of TDHCA every 5 years prior to renewal of new contract.</p> |
| <ul style="list-style-type: none"> Responsibilities for monitoring subrecipients. | <p>Regional Coordinators are responsible for providing technical assistance and monitoring Local Operator office. On site visits are made on an as needed basis.</p> <p>Supervision/Quality Control - Upon return to the office the RC provides the Program Manager with a trip report, including actions and resolution.</p> |
| <ul style="list-style-type: none"> Process and procedures for monitoring. | <p>Training and technical assistance is provided by Regional Coordinators throughout the length of a Local Operator Contract. Section 8 has an assigned trainer to provide continuous and updated training as required. Periodic desk audits are performed by Regional Coordinators to ensure current forms are being utilized and outdated documents are destroyed. Telephone communications are performed daily to keep Local Operators abreast of current status of their service area and directive on how to resolve issues. Local Operator reviews are conducted to ensure HUD Section 8 requirements are being met and Local Operator is working within the guidelines of TDHCA's Section 8 Administrative Plan.</p> <p>Supervision/Quality Control - Program Manager is kept informed of concerns regarding Regional Coordinator and outstanding issues with Local Operators. Manager handles all Executive Director Action Summaries presented to the program. Serious program complaints and concerns are addressed by the Division Director, Legal Section and if necessary Deputy Executive Director.</p> |

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| Monitoring Responsibilities / Requirements | TDHCA's Procedures ¹ to Ensure Compliance |
|---|--|
| <ul style="list-style-type: none"> Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control. | Written communication must be submitted to address concerns of sub recipients. The issues are discussed with the Local Operator. |
| <ul style="list-style-type: none"> Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity's accounts. | The State's federal fund account is reimbursed with non-federal dollars in those instances where costs are disallowed. |
| Information and Communication: | |
| <ul style="list-style-type: none"> Standard award documents used by the non-Federal entity contain: <ul style="list-style-type: none"> ⇒ A listing of Federal requirements that the subrecipient must follow. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria. | These requirements are listed in the Department's Local Operator Contract. Regional Coordinators perform desk review and onsite visits to ensure subrecipient compliance. |
| <ul style="list-style-type: none"> ⇒ The description and program number for each program as stated in the Catalog of Federal Domestic Assistance (CFDA). If the program funds include pass-through funds from another recipient, the pass-through program information should also be identified. | N/A |
| <ul style="list-style-type: none"> ⇒ A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements | The Local Operator Contract is signed by the local officials. The Local Operator contract defines the duties and responsibilities. The local officials are provided a copy of the Local Operator Responsibilities and the Administrative Plan which contain guidelines to ensure that Local Operator maintains the integrity of the program. The Section 8 Manager, Program Coordinator, and Regional Coordinators ensure the Local Operator complies with Local HAP contract and the Local Operator Responsibilities. Local Operator issues are addressed via phone communication, memorandums, and e-mail. |
| <ul style="list-style-type: none"> A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient. | TDHCA maintains all records in compliance with current state guidelines and follows established archive procedures. The Section 8 archive liaison (Financial Services Facilitator) conducts all archive procedures with oversight from the Program Coordinator. |
| <ul style="list-style-type: none"> Procedures are in place to provide channels for subrecipients to communicate concerns to the pass-through entity. | All Local Operators are provided a toll-free number to contact the Section 8 staff. All Section 8 staff has access to phone/fax and email capability. Section 8 staff and management is available to meet with Local Operator upon request. All incoming phone messages are logged. |
| Monitoring: | |
| <ul style="list-style-type: none"> Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, on-site monitoring reviews of subrecipients, and timely resolution of audit findings. | Financial Facilitator logs in all incoming contracts in the Genesis tracking system. Inspection date, start date, as well as comments are entered providing staff with the ability to print report generating timeliness of Local Operator's incoming contract packages. Supervision/Quality Control - The Genesis tracking log is available for review by the Program Manager. The Program Manager is given a monthly Bedroom Breakdown report for each service area which reports outstanding contracts and tracks the renewal dates. |
| <ul style="list-style-type: none"> Supervisory reviews performed to determine the adequacy of subrecipient monitoring | All comments regarding the review of Local Operator contracts by Regional Coordinator are noted on internal routing sheet and SEMAP quality control checklist. Supervision/Quality Control - Program Coordinator review comments and determine action required to complete file. |

**Texas Department of Housing and Community Affairs
 Program Monitoring - Section 8
 July 2003**

Positions responsible for ensuring compliance include the following:

| Position Title | Minimum Qualification for Employment | Annual Training Requirements * |
|-----------------------|---|--------------------------------|
| Program Manager | Graduation from an accredited four-year college or university in business practices, or equivalent work experience. Experience and education may be substituted for one another. | |
| Program Coordinator | Graduation from an accredited four-year college or university in business practices, or equivalent work experience. Experience and education may be substituted for one another. | |
| Regional Coordinator | Graduation from an accredited four-year college or university in business practices, or equivalent work experience. One year of appropriate experience may be substituted for college on a year-for-year basis. | |
| Financial Facilitator | Graduation from an accredited high school with course work in business practices, or equivalent work experience. One year of appropriate experience may be substituted for college on a year-for-year basis. | |

*Section 8 attends HUD and other trainings applicable to the Housing Choice Voucher Program.

Texas Department of Housing and Community Affairs

*Graduated Sanctions Available to Community Affairs Division for
Addressing Poor Performing Program Subrecipients
Leading up to and Including Termination*

GRADUATED SANCTIONS AVAILABLE TO COMMUNITY AFFAIRS DIVISION FOR ADDRESSING POOR PERFORMING PROGRAM SUBRECIPIENTS LEADING UP TO AND INCLUDING TERMINATION

- **REQUIRED TECHNICAL ASSISTANCE AND TRAINING:** May be used with all Community Affairs programs. This may include peer to peer training (the Department facilitates the provision of training from a high performing subrecipient to a low performing subrecipient), or training and technical assistance provided by Department staff or external partners. With Community Services Block Grant (CSBG) eligible entities, this is required as part of the process leading to termination.
- **COST REIMBURSEMENT:** Used for CSBG eligible entities; not used in energy assistance programs.
- **REDUCTION OR DEOBLIGATION OF FUNDS:** May be used with all Community Affairs subrecipients except CSBG eligible entities.
- **WITHHOLDING OF FUNDS PENDING RESOLUTION OF ISSUES:** May be used with all Community Affairs subrecipients except CSBG eligible entities.
- **PERFORMANCE AGREEMENT:** Commonly used with energy assistance subrecipients. Subrecipient agrees to produce weatherized units and expend funds at an agreed upon level or rate within a given period of time, or voluntarily relinquish the program.
- **VOLUNTARY RELINQUISHMENT:** May be used with all Community Affairs subrecipients. Voluntary relinquishment may be used after other sanctions imposed by the Community Affairs Division have failed to correct serious deficiencies disclosed during monitoring reviews and may include instances of apparent misuse or mismanagement of funds, serious deficiencies with service delivery or production, failure to adhere to governing board requirements, or a lack of established financial and administrative procedures and practices. Voluntary relinquishment expedites the process of reassigning the affected area to a new subrecipient for delivery of services. When used with a CSBG eligible entity, the Department avoids the lengthy termination process¹ imposed by the CSBG Act.
- **TERMINATION:** May be used with all Community Affairs subrecipients. May be used when serious deficiencies are disclosed during monitoring reviews and may include instances of apparent misuse or mismanagement of funds, serious deficiencies with service delivery or production, failure to adhere to governing board requirements, or a lack of established financial and administrative procedures and practices.

WAP Policy Issuance 95-12.8 provides guidance to the Division regarding the non-renewal or termination of weatherization contracts. While there is no formal policy as to when the other sanctions are applied, a sanction may be recommended by a Section Manager to the Division Director. If the Division Director approves the recommended sanction, the sanction is imposed. The Division Director may revise the terms of the recommended sanction or may suggest an alternative to the recommendation. The Division Director also may recommend that a specific sanction be imposed upon a subrecipient. The Executive Director must approve recommendations of voluntary relinquishment or termination of a subrecipient.

¹ The CSBG Act specifically outlines the contract termination process which is at a minimum a nine month process. If the state determines that an eligible entity fails to comply with the terms of the contract or the state plan, the state shall inform the entity of the deficiency to be corrected, require the entity to correct the deficiency, and offer training and technical assistance (T&TA) if appropriate. The state must submit to the Secretary of the US Department of Health and Human Services (HHS) a report describing the T&TA or a report stating why T&TA is not appropriate. The state may allow the eligible entity to develop and implement a quality improvement plan within 60 days after being informed of the deficiency. Within 30 days of the receipt of the plan the state must either approve the plan or specify why the plan cannot be accepted. If the state does not accept the quality improvement plan, then the state, after providing adequate notice and an opportunity for a hearing, the state may initiate proceedings to terminate or reduce the funding of an eligible entity. A determination to terminate or reduce funding is reviewable by the Secretary of HHS. The Secretary shall, upon a request from the eligible entity, review the state's determination to terminate or reduce funding and shall complete the review within 90 days after the Secretary receives all necessary documentation from the state. If the review is not completed within the 90 days, the state's determination becomes final.

Texas Department of Housing and Community Affairs

*Graduated Sanctions Up To and Including Termination Applied Against
Community Affairs Division's Subrecipients since 1998*

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
GRADUATED SANCTIONS UP TO AND INCLUDING TERMINATION
APPLIED AGAINST COMMUNITY AFFAIRS DIVISION'S
SUBRECIPIENTS SINCE 1998**

The Energy Assistance Section (EA) and the Community Services Section (CS) conduct on-site monitoring reviews of subrecipients based on an assessment of associated risks. The assessment of associated risks utilizes factors developed by the Department's Portfolio Management & Compliance Division. Those factors include the status of the most recent monitoring report, timeliness of grant reporting, results of the last on-site visit, number and dollar amounts of Department funded contracts and single audit status.

EA and CS provide written monitoring reports that detail the results of on-site reviews which include an evaluation of the efficiency, economy, and effectiveness of the subrecipient's performance of the contract. EA and CS advise the subrecipient in writing of any deficiencies noted during such monitoring. EA and CS provide technical assistance to the subrecipient and require or suggest changes in program implementation, accounting, personnel, procurement, and management procedures in order to correct any deficiencies noted. EA and CS may conduct follow-up visits to review and assess the efforts the subrecipient has made to correct previously noted deficiencies. EA and CS may impose any appropriate sanction on a subrecipient in the event monitoring, desk reviews, or other verifiable information reveals material deficiencies in subrecipient's performance or if the subrecipient fails to correct any deficiency within a specified time.

The following is a list of instances when the Community Affairs Division has imposed available sanctions on subrecipients since 1998.

Community Action Corporation of Wichita Falls (CACWF)

- CS placed on cost reimbursement in 1998
- Board of Directors voluntarily relinquished Community Services Block Grant (CSBG), Weatherization Assistance Program (WAP), and Comprehensive Energy Assistance Program (CEAP) contracts in October 1999

Gulf Coast Community Services Association (GCCSA)

- CS placed on cost reimbursement in 1998
- Removed from cost reimbursement in 2000

Colonias Del Valle

- WAP Contract Terminated in PY2000

Williamson-Burnet County Opportunities

- WAP Contract Terminated in PY2000

Dallas County Community Action Committee (DCCAC)

- CS placed on cost reimbursement in July 1996
- CSBG Contract Terminated in March 2001

Community Services of Northeast Texas (formerly Community Action Council of Cass, Marion and Morris Counties)

- Board of Directors voluntarily relinquished WAP contract in PY2002
- Peer to Peer training conducted in PY 2002

Guadalupe Economic Services Corporation

- Board of Directors voluntarily relinquished the PY 2002 WAP contract
- Board of Directors chose not to renew the PY 2003 (CEAP) contract

People for Progress

- Placed on WAP Performance Contract in PY 2003

Community Services Inc.

Placed on cost reimbursement in 1997
Removed from cost reimbursement in 2001

Rusk-Cherokee Community Action Program

CS placed on cost reimbursement in 1999
Board of Directors voluntarily relinquished the CSBG, WAP, and CEAP contracts in 2001

East Texas Human Development Corporation (HUDCO)

CS placed on cost reimbursement in 1999
Board of Directors voluntarily relinquished the CSBG, WAP, and CEAP contracts in 2001

Tom Green County Community Action Program

CS placed on cost reimbursement in May 2003, retroactive to April, 2003
May 19, 2003-informed HHS of intent to require TGCCAC to reconstitute board within 90 days or the Department would begin termination process
May 30, 2003-informed TGCCAC of August 7, 2003 deadline to reconstitute board or face possible termination
June 23, 2003-due to additional information obtained during monitoring, informed TGCCAC that the Department would work with the county judges in TGCCAC's eleven county service area to reconstitute the board
July 10, 2003-notified HHS of Department's plans to work with the county judges to reconstitute the board
Remains on cost reimbursement method of payment

Kickapoo Traditional Tribe of Texas

Placed on cost reimbursement in 2001
Remains on cost reimbursement method of payment

EXECUTIVE SESSION

Personnel Matters under Section 551.074, Texas Government Code
If permitted by Law, the Committee may discuss any item listed on the agenda in
Executive Session

Vidal Gonzalez

OPEN SESSION

Action in Open Session on Items Discussed in Executive Session

Vidal Gonzalez

ADJOURN

Vidal Gonzalez