

**AUDIT COMMITTEE MEETING**  
**JUNE 14, 2012**  
**Lowell Keig, Chair**



Leslie Bingham-Escareño, Member  
Tom H. Gann, Member

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

June 14, 2012  
8:30 AM  
221 E. 11<sup>th</sup> St. Room 116  
Austin, TX 78701

**AGENDA**

**CALL TO ORDER, ROLL CALL**

Lowell Keig, Chair

**CERTIFICATION OF QUORUM**

Lowell Keig, Chair

**PUBLIC COMMENT**

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

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**REPORT ITEMS**

- |        |  |   |
|--------|--|---|
| Item 1 | Presentation, Discussion, and Possible Approval of the Audit Committee Minutes for February 16, 2012 | Lowell Keig, Chair                              |
| Item 2 | Presentation and Discussion of the Status of the Fiscal Year 2012 Internal Audit Work Plan           | <b>Sandy Donoho</b><br>Director, Internal Audit |
| Item 3 | Presentation and Discussion of Recent Internal Audit Reports   |   |
| Item 4 | Presentation and Discussion of the Status of External Audits   |   |
| Item 5 | Presentation and Discussion of Recent External Audit Reports   |   |
| Item 6 | Presentation and Discussion of the Status of Prior Audit Issues                                      |   |

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.

**EXECUTIVE SESSION**

Lowell Keig, Chair

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551 and under Texas Government Code §2306.039

**OPEN SESSION**

If there is an Executive Session, the Committee will reconvene in Open Session. Except as specifically authorized by applicable law, the Committee may not take any actions in Executive Session

**ADJOURN**

*To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact Nidia Hiroms, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3930 and request the information.*

*Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Nidia Hiroms, 512-475-3930 at least three days before the meeting so that appropriate arrangements can be made.*

*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

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**BOARD ACTION REQUEST**

**BOARD SECRETARY**

**June 14, 2012**

Presentation, Discussion, and Possible Approval of the Audit Committee Meeting Minutes Summary for February 16, 2012.

**Recommended Action**

Approve the Audit Committee Meeting Minutes Summary for February 16, 2012.

**RESOLVED**, that the Audit Committee Meeting Minutes Summary for February 16, 2012, is hereby approved as presented.

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

**FEBRUARY 16, 2012; 7:30 A.M.**

Capitol Extension, E1.028  
1500 North Congress Ave.  
Austin, TX

**SUMMARY OF MINUTES**

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

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of February 16, 2012 was called to order by Vice Chair, Tom Gann, at 7:34 a.m. It was held at 1500 North Congress Ave., Capitol Extension, 1.028 Austin, TX. Roll call certified a quorum was present.

**Members Present:**

Tom Gann, Member  
Lowell Keig, Member

**PUBLIC COMMENT**

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

**No public comment.**

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**REPORT ITEMS**

**AGENDA ITEM 1 PRESENTATION, DISCUSSION, AND POSSIBLE APPROVAL OF AUDIT COMMITTEE MINUTES FOR September 15, 2011.**

**Motion by Mr. Keig to approve staff recommendation; duly seconded by Mr. Gann; passed unanimously.**

**AGENDA ITEM 2 PRESENTATION AND DISCUSSION OF AUDIT RESULTS FROM THE STATE AUDITOR'S OFFICE**

**-COMMUNICATIONS WITH AUDIT COMMITTEE  
-OPINION AUDIT ON FY 2011 BASIC FINANCIAL STATEMENTS  
-OPINION AUDIT ON FY 2011 REVENUE BOND PROGRAM FINANCIAL STATEMENTS  
-OPINION AUDIT ON FY 2011 COMPUTATION OF UNENCUMBERED FUND BALANCES  
Report item only. No action taken.**

**AGENDA ITEM 3 PRESENTATION, DISCUSSION, AND POSSIBLE APPROVAL OF THE 2012 INTERNAL AUDIT CHARTER AND BOARD RESOLUTION NO. 12-018**

**Motion by Mr. Keig to approve staff recommendation; duly seconded by Mr. Gann; passed unanimously.**

- AGENDA ITEM 4 PRESENTATION AND DISCUSSION OF THE STATUS OF THE FISCAL YEAR 2012 INTERNAL AUDIT WORK PLAN  
Report item only. No action taken.
- AGENDA ITEM 5 PRESENTATION AND DISCUSSION OF RECENT INTERNAL AUDIT REPORTS  
Report item only. No action taken.
- AGENDA ITEM 6 PRESENTATION AND DISCUSSION OF THE STATUS OF EXTERNAL AUDITS  
Report item only. No action taken.
- AGENDA ITEM 7 PRESENTATION AND DISCUSSION OF RECENT EXTERNAL AUDIT REPORTS  
Report item only. No action taken.
- AGENDA ITEM 8 PRESENTATION AND DISCUSSION OF THE STATUS OF PRIOR AUDIT ISSUES  
Report item only. No action taken.

#### EXECUTIVE SESSION

No Executive Session was held.

#### ADJOURN

Since there was no further business to come before the Committee, Tom Gann adjourned the meeting of the Audit Committee at 8:30 a.m. on February 16, 2012.

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Michele Atkins, Assistant Board Secretary

For a full transcript of this meeting, please visit the TDHCA website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us).

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**BOARD REPORT ITEM**

**INTERNAL AUDIT**

**JUNE 14, 2012**

Presentation and Discussion of the Status of the Fiscal Year 2012 Internal Audit Work Plan.

**REPORT ITEM**

The Internal Audit Work Plan for Fiscal Year 2012 was approved by the audit committee and by the full board on September 15, 2011. This presentation outlines the current status of the plan.

**BACKGROUND**

There are 8 audits on the plan this year. We have completed:

- a Follow-up Audit of the Neighborhood Stabilization Program (NSP),
- an Audit of Contracting for Services,
- an Audit of Website Management,
- an Audit of HOME Multifamily,
- an Audit of Human Resources,
- a Quality Assurance and Self-Assessment Review,
- the annual review of the Internal Audit Charter and Board Resolutions,
- an update of the Internal Audit Division's Policies and Procedures, and
- our reciprocal peer review work.

There are 2 audits or projects currently underway:

- An audit of Section 8, and
- An audit of the Homeless Housing and Services Program.

In addition:

- The Audit of the Loan Process has been delayed due to the Department's reorganization and the re-structuring of this process. We will either cancel this project or move it to the fiscal year 2013 audit plan, depending on the results and timing of the re-structuring.
- In July we will start working on the risk assessment process used to develop next year's audit plan, as well as starting to prepare for our upcoming peer review.



**Department of Housing and Community Affairs  
Internal Audit Division  
Status of the Fiscal Year 2012 Internal Audit Plan  
June 14, 2012**

<b>Program Area/Division</b>	<b>Audit</b>	<b>Hours</b>	<b>Comments</b>
NSP	Neighborhood Stabilization Program (Follow-Up)	1000	<b>COMPLETED</b>
Community Affairs	Homeless Housing and Services Program	1300	IN PROCESS (August Release)
HOME	HOME Multifamily	1000	<b>COMPLETED</b>
Multiple Divisions	Loan Process	1000	Delayed
Staff Services	Contracting for Services	120	<b>COMPLETED</b>
Human Resources	Human Resources	120	<b>COMPLETED</b>
Information Systems	TDHCA Website Management	120	<b>COMPLETED</b>
Community Affairs	Section 8	400	IN PROCESS (July Release)
<b>Program Area/Division</b>	<b>Management Assistance/ Special Projects</b>		<b>Comments</b>
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2013 Audit Plan	200	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Annual Review and Revision of Internal Audit Charter	40	<b>COMPLETED</b>
Internal Audit	Quality Assurance Self-Assessment Review	80	<b>COMPLETED</b>
Internal Audit	Review and Revise Internal Audit Policies and Procedures to Comply with New Auditing Standards	60	<b>COMPLETED</b>
Internal Audit	Preparation for 2012 Peer Review	160	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Preparation and Submission of the Fiscal Year 2012 Annual Internal Audit Report	40	Required by the Texas Internal Auditing Act
Internal Audit	Coordinate with External Auditors	60	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	200	Ongoing - Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	200	Ongoing - Required by Audit Standards
All Divisions	Tracking, Follow-up and Disposal of Fraud Complaints	200	Ongoing - Internal Audit is Responsible for the Fraud Hotline and Fraud Complaints

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**BOARD REPORT ITEM**

**INTERNAL AUDIT**

**JUNE 14, 2012**

Presentation and Discussion of Recent Internal Audit Reports.

**REPORT ITEM**

Of the projects on our fiscal year 2012 audit work plan, we have recently completed the following audits or reviews:

- an Audit of Website Management,
- an Audit of HOME Multifamily, and
- an Audit of Human Resources.

**BACKGROUND**

**An Audit of Website Management**

The Department's website management process is a function of the Information Systems Division (Division). The objective of this audit was to determine if the Information Systems Division has a process in place to manage updates to the Department's website.

Website management includes performing website updates, providing training and support, performing website maintenance and processing and completing web projects.

We found that the Division has an effective process in place to manage updates to the Department's website. Controls over the process appear to be operating as intended. However, we identified one opportunity for improvement. We recommended that the Division revise its procedures for updating the website to ensure that it communicates to the Department's web liaisons that it is their responsibility to ensure that updates are accurate and complete, and to notify the web developer if changes need to be made. The web liaisons coordinate updates to the Department's website for their divisions. Management agrees with this recommendation.

**An Audit of HOME Multifamily**

HOME Multifamily generally has processes in place to ensure that HOME program funds are committed and spent appropriately and within the timelines required by the Department of Housing and Urban Development (HUD), that draw requests are processed in accordance with laws and regulations, and that contract amendments are approved by executive management and by the Department's Governing Board as required.

However, improvements can be made in the timeliness of draw processing and in the maintenance of supporting documentation for expenditures. In addition, HOME Multifamily should maintain the supporting documentation for contract amendments as required in its policies and procedures.

### An Audit of Human Resources

The Department's Human Resources Division is generally in compliance with the selected federal, state, and agency requirements tested. However, improvements can be made in ensuring that all required employment posters are accessible to applicants and in ensuring that the I-9 forms which are used to verify an employee's authority to work in the United States are completed and maintained as required. In addition, performance evaluations are not always completed timely and in accordance with agency policy.



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

Rick Perry  
GOVERNOR

**BOARD MEMBERS**  
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Leslie Bingham-Escarcño  
Lowell A. Keig  
Juan S. Muñoz, PhD  
J. Mark McWatters

March 7, 2012

*Writer's direct phone #512/475-3813*  
*Email: [sandy.donoho@tdhca.state.tx.us](mailto:sandy.donoho@tdhca.state.tx.us)*

RE: AN INTERNAL AUDIT OF THE DEPARTMENT'S WEBSITE MANAGEMENT (REPORT # 12-1049)

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

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) website management process, which is a function of the Information Systems Division (Division). Website management includes performing website updates, providing training and support, performing website maintenance and processing and completing web projects. The process for performing website updates was the focus of this audit. We found that the Division has an effective process in place to manage updates to the Department's website. Controls over the process appear to be operating as intended. We identified one opportunity for improvement. Specifically, the Division should revise its procedures for updating the website to ensure that it communicates to the Department's web liaisons that it is their responsibility to ensure that updates are accurate and complete, and to notify the web developer if changes need to be made. The web liaisons coordinate updates to the Department's website for their divisions. Management agrees with this recommendation and their response to this finding is at the end of this letter.

The Department maintains a complex and detailed website that is intended to provide timely and accurate information to the Department's stakeholders, clients and the public. Information maintained on the website includes general information about the Department, programmatic information, links to departmental information systems, and links to other important resources. In calendar year 2011, the Division reports that there were more than one million visits to the Department's website. In addition, there were 1,590 reported web updates processed in calendar year 2011.

In addition to determining if a process is in place to manage updates to the Department's website, we performed an analysis to determine how long it takes for a website update request to be processed. For the 30 judgmentally selected updates, we calculated the time lapse between the point when the update was requested and the point when the update was implemented. We found that 27 (90%) of the 30 web update requests we reviewed were implemented within 24 hours. Thirteen of those updates were implemented in less than one hour. It is important to note that website updates vary in complexity. Complex updates may take longer; others are dependent on the completeness of the information provided by the requestor.

The objective of this audit was to determine if the Information Systems Division has a process in place to manage updates to the Department's website. The scope was the current process for managing website updates during the period from November 2011 through January 2012. Our methodology

consisted of interviewing responsible individuals, reviewing documentation, observing the website update process, testing the process, and performing an analysis of the time it takes to perform an update to the Department's website.

This audit was conducted as part of our fiscal 2012 internal audit plan. We conducted our fieldwork in February of 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

We would like to extend our sincere thanks to the management and staff of the Information Systems Division for their cooperation and assistance during the course of this audit.

Sincerely,



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

Sqd/mbs

cc:

Tim Irvine, Executive Director  
Bill Dally, Chief of Agency Administration  
Curtis Howe, Director of Information Systems

**Management's Response**

Management agrees with the recommended revisions to the website update procedures and will complete the revisions in March.

Implementation Date: March 31, 2011

Responsible Person: Joe Burkhart



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

Rick Perry  
GOVERNOR

**BOARD MEMBERS**  
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Lowell A. Keig  
Juan S. Muñoz, PhD  
J. Mark McWatters

May 16, 2012

*Writer's direct phone # 512-475-3813*  
*Email: [sandy.donoho@tdhca.state.tx.us](mailto:sandy.donoho@tdhca.state.tx.us)*

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

RE: AN INTERNAL AUDIT OF THE HOME MULTIFAMILY PROGRAM

Attached is the Internal Audit Division's report on the Texas Department of Housing and Community Affairs (Department's) HOME Multifamily Program (HOME Multifamily). HOME Multifamily generally has processes in place to ensure that HOME program funds are committed and spent appropriately and within the timelines required by the Department of Housing and Urban Development (HUD), that draw requests are processed in accordance with laws and regulations, and that contract amendments are approved by executive management and by the Department's Governing Board as required. However, we determined that improvements can be made to the timeliness of draw processing and in the maintenance of supporting documentation for expenditures. In addition, HOME Multifamily should maintain the supporting documentation for contract amendments as required in its policies and procedures.

We tested 35 project draws and found that 5 (14.3%) were not processed within 10 business days of submission as required by the HOME Multifamily policies and procedures. In addition, 18 (51.4%) did not have adequate supporting documentation available. We also tested 29 Community Housing Development Organization (CHDO) operating draws and found that 6 (20.7%) were not processed within 10 business days of submission as required. In addition, 23 (79.3%) did not have adequate supporting documentation available. We also tested 15 HOME Multifamily contracts and determined that they were awarded in accordance with HUD requirements.

HOME Multifamily provides funding to units of general local governments, Public Housing Authorities, nonprofits, and for-profit entities for the new construction or rehabilitation of affordable multifamily rental developments. In grant year 2009, HUD allocated \$43.9 million in HOME funds to the Department. In grant year 2012, HUD allocated \$24 million in HOME funds to the Department, a decrease of 45.3% over a three year period.

The objectives of this audit were to determine if HOME Multifamily committed and expended funds in accordance with laws, regulations, and program requirements, awarded and amended contracts in accordance with program and HUD requirements, and processed draws in compliance with laws, regulations, and program requirements. The audit scope covered fiscal years 2010, 2011, and 2012 through February 1, 2012. Our fieldwork was conducted from February 2, 2012 through March 16,

2012. The audit was conducted in accordance with Generally Accepted Government Auditing Standards and the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions about this report, please contact me at (512) 475-3813. We appreciate the assistance and cooperation we received from management and staff.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sandra Q. Donoho', written in a cursive style.

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

Sqd/nae

cc: Tim Irvine, Executive Director  
Brooke Boston, Deputy Executive Director  
Cameron Dorsey, Director of Multifamily Allocations  
Sara Newsom, Director of HOME Division



## Executive Summary

The Texas Department of Housing and Community Affairs' (Department's) HOME Multifamily Program (HOME Multifamily) generally has processes in place to ensure that HOME Program funds are committed and spent appropriately and within the timelines required by the Department of Housing and Urban Development (HUD), that draw requests are processed in accordance with laws and regulations, and that contract amendments are approved by executive management and by the Department's Governing Board as required.

However, improvements can be made in the timeliness of draw processing and in the maintenance of supporting documentation for expenditures. In addition, HOME Multifamily should maintain the supporting documentation for contract amendments as required in its policies and procedures.

HUD determines the commitment and expenditure deadlines for HOME funds. The Department, as a HUD grantee, has two years to commit funds and five years after the commitment date to expend these funds. As of February 24, 2012, the HOME Program has not yet met the grant year 2010 commitment deadline of May 31, 2012. There is \$22,392,689.85 left to commit by the deadline. The HOME Program has already met the May 31, 2012 deadline for expending grant year 2007 funds. However, the Department should maintain the documentation that shows that the commitment and expenditure deadlines set by HUD were met.

We tested a judgmentally selected sample of 35 project draws and 29 Community Housing Development Organization (CHDO) operating draws. We found that 5 (14.3%) of 35 project draw requests and six (20.7%) of 29 CHDO draws were not processed within 10 business days of submission as required by the HOME Program's policies and procedures. Longer draw processing times may affect the timely expenditure of HOME funds which is necessary to enable the Department to meet the federal expenditure deadlines set by HUD for each HOME grant year.

The supporting documentation for draws was not always available or did not always adequately support draws for both the project and CHDO draws. We tested a judgmentally selected sample of 35 project draws and found that 18 (51.4%) did not have adequate or complete supporting documentation available. We also tested 29 CHDO draws and found that 23 (79.3%) did not have adequate or complete supporting documentation as required. If all required documentation is not verified and all costs are not adequately supported, draw requests for ineligible costs could be approved.

We tested a judgmental sample of 15 HOME Multifamily contracts and determined that they were awarded in accordance with HUD requirements.

### **HOME Multifamily Rental Housing Development Program**

The HOME Program provides funding to units of general local governments, Public Housing Authorities, nonprofits, and for-profit entities to finance the new construction or rehabilitation of affordable multifamily rental developments.

Multifamily developments carry long-term rent and income restrictions and may be layered with additional funding sources including Housing Tax Credits.

In grant year 2011, Texas was awarded \$39,180,788 in federal HOME funds. The Department allocated \$22,038,066 or 56.2% of these funds to multifamily activities.

## **Other Key Points**

- Two contracts we tested had start and end dates in the Housing Contract System which were 6 days earlier and 2 days later, respectively, than the start and end dates of the executed contracts. Incorrect information in the Housing Contract System may cause HOME Multifamily staff to inappropriately approve or disapprove a draw and incorrectly determine whether costs were incurred during the eligible contract period.
- The HOME Program is not maintaining all amendment documentation as required by its policies and procedures. Documents were not always maintained in the Housing Contract System, hardcopy contract files, or electronic contract files as required.
- The original amendment request dates are not consistently tracked. Without an accurate record of the amendments that were requested, processed, approved, or denied, HOME Multifamily is unable to ensure that all amendments are processed as required.
- The HOME Program's policies and procedures are in draft form and have not been finalized.
- The HOME Program received a decrease in funds appropriated by HUD from grant year 2010 to present. From grant year 2011 to grant year 2012, the HOME Program received a 38.7% decrease in funds.

## **Summary of Recommendations**

- The supporting documentation should be maintained to show that the commitment and expenditure deadlines set by HUD are met for each grant year.
- The Department should document the process used to expend all grant funds by the deadline set each year by HUD.
- Draws should be processed within the timeframe required by HOME Multifamily.
- The Department should ensure that draw requests are not approved until all items required by the draw checklists are verified, and ensure that draw documentation is sufficient to adequately support costs.
- Contract information should be accurately entered into the Housing Contract System during contract setup.
- All amendments should be tracked and the supporting documentation maintained as required.
- The HOME Multifamily policies and procedures should be finalized, signed, dated and distributed to the Department's staff.

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## Detailed Results

### Chapter 1

## HOME Multifamily Should Improve Draw Processing Times and Ensure that Documentation Supports Costs

The Texas Department of Housing and Community Affairs' (Department) HOME Multifamily Program (HOME Multifamily) processes draw requests in accordance with laws and regulations. However, the draws are not always processed within five to ten business days as required by internal policy. In addition, we identified several instances where supporting documentation was either not available or did not adequately support the draw request.

Five (14.3%) of the 35 judgmentally selected project draws and six (20.7%) of the 29 judgmentally selected CHDO operating draws we tested were not processed by HOME Multifamily within 10 business days. The longest processing time for these draws was 24 business days for project draws and 16 business days for CHDO operating draws. A delay in processing draws could affect the rate at which funds are spent and ultimately impact the Department's ability to meet HUD's expenditure deadlines.

Eighteen (51.4%) of the 35 project draws and 23 (79.3%) of the 29 CHDO draws tested did not have complete or adequate support documentation. Without sufficient supporting documentation, there is a risk that funds could be spent on activities that are not allowed or that do not fully comply with the program requirements.

### Chapter 1-A

## Draws Should be Processed within the Targeted Timeframe

HOME Multifamily does not always process draws within five to ten business days as required by the HOME Performance Management Standard Operating Procedure. Five (14.3%) of the 35 judgmentally selected project draws and six (20.7%) of the 29 judgmentally selected CHDO operating draws were not processed within 10 business days. The longest processing time noted for these draws was 24 business days for project draws and 16 business days for CHDO operating draws. It is important that draws are processed in a timely manner because longer processing times could slow the expenditure rate for HOME funds and may delay the Department's progress toward meeting the HOME expenditure deadlines set by HUD for each grant year. (see Chapter 3)

### HOME Multifamily Program Definitions

*CHDO:* A nonprofit organization that applies for multifamily development funds and acts as a sponsor, developer, or owner of the multifamily housing development and has both applied for and been granted certification as a CHDO by the Department. Additional funds are available to CHDOs in the form of a grant for operating expenses not necessarily related to the development project.

*Project Draws:* These draws are reimbursement requests for costs related to the development project.

*Community Housing Development Organization (CHDO) Operating Draws:* These draws are for operating expenses not necessarily related to the development project and are for nonprofits certified as a CHDO.

## *An Internal Audit of the HOME Multifamily Program*

In addition, the HOME Performance Management policy and procedures have not been finalized, signed or dated by management. Policies and procedures are internal controls that help ensure that management's directives are carried out. Without finalizing and formally communicating policies and procedures to the HOME Multifamily staff, staff may not be performing their job duties as intended by management. Finalizing and communicating the policies and procedures are necessary to ensure that all staff are performing their duties consistently and effectively and that risks are mitigated.

### **Recommendation**

The Department should:

- ensure that draws are processed within the timeframe required by HOME Multifamily, and
- finalize, sign, date and distribute the HOME Performance Management policies and procedures

### **Management's Response**

*Staff concurs with the recommendation and will ensure that draws are processed within the timeframe required. Management notes that part of the resolution to this finding may include amending the process to include a more realistic timeframe for draw completion; draw processing for multifamily is often more time-consuming because of factors related to the final construction inspection and because of the complexity and volume of the invoices submitted. Staff will also ensure that the appropriate processes for Performance Management will be finalized, signed and dated.*

*Person Responsible: Cameron Dorsey, Director of Multifamily Allocation  
Implementation Date: May 31, 2012*

Chapter 1-B

### **Ensure that Draw Documentation is Sufficient to Support Costs**

The supporting documentation for the draws was not always available or did not always adequately support draws for both the project draws and the CHDO operating draws we tested. The HOME Program Specialists use draw checklists which are contained in the HOME Access database to review the requests and the supporting documentation, and to approve or disapprove the draw request. We tested a judgmentally selected sample of 35 project draws and found that 18 (51.4%) did not have adequate or complete supporting documentation available in the Housing Contract System, the HOME Program electronic files, or the hard copy file. We also tested 29 CHDO operating draws and found that 23 (79.3%) did not have sufficient supporting documentation available in the Housing Contract System, hardcopy contract files, or the HOME Program's electronic files as required.

Examples of missing documents for the project draws include:

- 12 (34.3%) did not have contractor or subcontractor lien waivers. In addition, one of the 12 draws did not have an invoice to support \$2,023 of a \$22,640 payment for appliances, and another included an invoice for tenant relocation which was not itemized,
- 3 (8.6%) did not have down date endorsements,
- 2 (5.7%) included AIA G702 forms (Application and Certification for Payment) which were not notarized, and
- 1 (2.9%) final draw did not have a developer's invoice for \$21,107 paid for the developer's fee. In addition, the draw included a final down date endorsement to the title policy which was dated 5

## *An Internal Audit of the HOME Multifamily Program*

days after construction completion (not 30 days as required by 10 TAC §53.82), a copy of the IDIS close out report that was not signed by the Contract Administrator, and a Project Completion Report that did not reflect the total amounts of the HOME award and project costs.

Examples of missing documents for the CHDO operating draws include:

- 14 (48.3%) did not include documentation of approved salary rates for management and staff salary reimbursements, including one draw in which the base hourly wage for the Executive Director increased from \$21.50 to \$23.50 without providing evidence to justify the wage increase, and
- 12 (41.4%) did not include time logs to support the actual hours or pay stubs to support the actual costs incurred.

It is important that all supporting documentation is obtained and reviewed prior to the approval of any draw request in order to mitigate the risk of paying for ineligible costs.

### **Recommendation**

The Department should:

- ensure that draw requests are not approved until all items required by the draw checklists are verified, and
- ensure that draw documentation is sufficient to adequately support costs.

### **Management's Response**

*Internal Audit's recommendations speak to ensuring adequate support for costs paid. Although this supporting documentation may come in multiple forms due to the limited Federal guidance simply requiring that CHDO draw support prove CHDO costs are "necessary and reasonable," staff will work to ensure that a timesheet, paystub or other appropriate documentation of pay (at the determination of division management) is included with every CHDO draw that is claiming staff time as a cost. Checklists will be updated as necessary, the SOP will be revised to provide further clarity and management will continue to work to make sure that program guidelines are consistently applied by all staff processing draws.*

*Person Responsible: Cameron Dorsey, Director of Multifamily Allocation  
Implementation Date: May 31, 2012*

*Chapter 2*

## **HOME Multifamily Should Verify Accuracy During Contract Setup, and Track and Document Amendments**

HOME Multifamily is awarding contracts in accordance with HUD requirements. In addition, contract amendments were properly routed throughout the Department for approval and were ultimately approved by the Department's Governing Board as required. However, improvements can be made in complying with contract start and end dates and in maintaining all of the amendment documentation required by the Department's policies and procedures.

We tested 15 judgmentally selected contract awards and found that all of the contracts tested were awarded in compliance with HUD's requirements for the HOME Program. However, two contracts (13.3%) had contract start and end dates in the Department's Housing Contract System which were 6 days earlier and 2 days later, respectively, than the start and end dates of the executed contract. As a result, draws may be inappropriately approved or disapproved by HOME Multifamily staff if they are using inaccurate contract data to determine eligible costs based upon the date on which the claimed costs were incurred.

HOME Multifamily contract amendments were properly routed throughout the Department and received approval from the Department's Governing Board as required. However, HOME Multifamily is not maintaining all of the amendment documentation required by its policies and procedures. Documents were not always maintained in the Housing Contract System, hardcopy contract files, or the HOME Program's electronic contract files as required. In addition, the original amendment request dates are not consistently tracked in the HOME Access database as required. Without an accurate record of the amendments that were requested, processed, approved, or denied, HOME Multifamily is unable to ensure that all amendments are processed as required by the program rules.

*Chapter 2-A*

### **HOME Multifamily Should Verify the Accuracy of Contract Setup Data**

HOME Multifamily contracts were awarded in compliance with HUD requirements. We selected a judgmental sample of 15 contract awards from the HOME Multifamily contracts for state fiscal years 2010, 2011, and 2012. These 15 awards account for \$18,181,334 (49.1%) of the \$37,039,153 in total contract awards. We found that all 15 contracts were awarded in accordance with HUD requirements and with the requirements in the Texas Administrative Code. These requirements include HOME unit availability for low income families and HOME unit rent restrictions, as well as the requirements of Title 10, Chapter 53.81 of the Texas Administrative Code such as thresholds specified in the HOME Final Rule, requirements and restrictions for the total number of HOME and non-HOME units in a project, and HOME unit availability and rent restrictions for projects funded under the Person's with Disabilities Set Aside.

However, two contracts (13.3%) had contract start and end dates in the Housing Contract System which did not agree with the effective dates and the termination dates of the executed contracts. One contract was listed in the Housing Contract System to start and end 6 days earlier than the executed contract, and one contract was listed to start and end 2 days later than the executed contract. As a result, draws may be inappropriately approved or disapproved by staff if they are using inaccurate contract data to determine eligible costs based on the date on which the costs were incurred.

## *An Internal Audit of the HOME Multifamily Program*

The HOME Multifamily policies and procedures regarding the creation and setup of HOME contracts have not been finalized, signed or dated by management. Policies and procedures are internal controls that help ensure that management directives are carried out. Without finalizing and formally communicating policies and procedures to the HOME Multifamily staff, staff may not be performing their job duties as intended by management. Finalizing the policies is necessary to ensure that all program specialists are performing their duties as required.

### **Recommendation**

The Department should ensure that:

- contract information is accurately entered into the Housing Contract System during contract setup, and
- policies and procedures are finalized, signed and dated, and distributed to the Department's staff.

### **Management's Response**

*Management understands, and fully agrees with, the importance of accuracy of information input in the Housing Contract System. An additional step will be added to the current procedure to confirm the contract system data against the actual executed contract. All existing HOME procedures are under review and management is committed to finalizing and signing SOPs by the end of May. All of the information contained in this audit will be considered as modifications are made to the SOPs.*

*Person Responsible: Cameron Dorsey, Director of Multifamily Allocation*

*Implementation Date: May 31, 2012*

Chapter 2-B

### **HOME Multifamily Should Track and Maintain Supporting Documentation for Contract Amendments**

HOME Multifamily is not always tracking contract amendments or maintaining supporting documentation for amendments. We judgmentally selected a sample of 15 amended contracts from an incomplete population of 37 amended contracts which were amended from September 1, 2010 to February 1, 2012. Amended contracts were sampled rather than individual amendments because the complete population of amendments for HOME Multifamily contracts could not be determined. We were unable to determine the complete population of amendments because this information has not been consistently tracked. The current HOME Program Specialist Team Lead was only recently assigned the responsibility for tracking amendments. Therefore, we were unable to determine if the population of amendments provided was complete and accurate.

The 15 contracts we selected for review have a total of 33 amendments and account for \$21,204,575 (34.8%) of the \$60,906,366 in total amended funds for the population of 37 amended contracts. We tested all 33 amendments to these 15 contracts and determined that HOME Multifamily is not processing amendments according to its amendment policies and procedures. The HOME Program's policies and procedures require certain documentation to be maintained in the Housing Contract System, as well as in the hardcopy contract files, and/or the HOME Program's electronic contract files; however, they are not maintaining all of the required amendment documentation.



## *An Internal Audit of the HOME Multifamily Program*

Examples of missing documentation include:

- None of the 33 amendments had documentation in the Housing Contract System of the original amendment request. In addition, the HOME hardcopy and electronic files did not have documentation of the original amendment requests for 13 (39.4%) amendments, cover letters for 30 (90.9%) executed amendments, or copies of the federal debarment list printouts for any amendments.
- 22 (66.7%) of the 33 amendments requested an extension to the contract. Of these, 5 (15.2%), including one amendment extending a contract by more than six months, did not have documentation in the Housing Contract System, the hardcopy contract file, or the electronic contract file that documented the need for the amendment or a description of the impact of the amendment on the project. The amendment extending the contract by more than six months was also missing required documentation of the specific timeframe requested for extension.

The HOME Program is not consistently logging amendment requests into the HOME Access database as required by its policies and procedures. The HOME Access database did not have receipt dates for amendment requests recorded for 19 (57.6%) of the 33 amendments. Without an accurate record of the amendments that were requested, processed, approved, or denied, HOME Multifamily is unable to ensure that all amendments are processed as required.

The HOME Multifamily policies and procedures regarding amendment processing and documentation have not been finalized, signed or dated by management. Policies and procedures are internal controls that help ensure that management directives are carried out. Without finalizing and formally communicating policies and procedures to the HOME Multifamily staff, the staff may not be performing their job duties as intended by management. Finalizing the policies is necessary to ensure that all program specialists are performing their duties consistently and effectively, in accordance with standardized instructions, and that risks are mitigated.

### **Recommendation**

The Department should ensure that:

- all amendments are tracked and the supporting documentation is maintained as required, and
- the HOME Multifamily policies and procedures are finalized, signed, dated and distributed to the Department's staff.

### **Management's Response**

*As stated above, existing HOME procedures are under review and management is committed to finalizing and signing SOPs by the end of May. The Multifamily Finance Division is currently building a pipeline management database in Microsoft Access to track and manage all multifamily programs. The amendments will be tracked in this new system, which is expected to be implemented in the fall. In the meantime, staff will track all multifamily Contract amendments in a spreadsheet. Additionally, documentation of the amendment request will be saved in the Division's electronic files.*

*Person Responsible: Cameron Dorsey, Director of Multifamily Allocation*

*Implementation Date: May 31, 2012*

Chapter 3

**The Department Should Document the Achievement of Commitment and Expenditure Deadlines for HOME Funds**

HUD determines the commitment and expenditure deadlines for HOME funds. The Department, as a HUD grantee, has two years to commit funds and five years after the commitment date to expend these funds. (This requirement is set out in the HOME Final Rule, 24 CFR, Part 92, Subpart K, Section 92.500.) The HOME Program met the grant year 2009 commitment and grant year 2006 expenditure deadlines as required by HUD. As of February 24, 2012, the HOME Program has yet to meet the grant year 2010 commitment deadline of May 31, 2012. There is \$22,392,689.85 left to commit by the deadline. However, the HOME Program has met the May 31, 2012 deadline for expending grant year 2007 funds. In addition, the HOME Program has until September 30, 2012 in which to expend all of grant year 2005 funds or they will be subject to recapture by HUD. As of February 24, 2012, the HOME Program had \$ 2,141,569 remaining in grant year 2005 funds to expend.

The Department tracks the HOME funds on a rolling basis to ensure that the commitment and expenditure deadlines are met, but does not always maintain copies of the reports necessary to substantiate this. As a result, we were unable to review these reports for all prior years. However, we were able to verify the calculations that are used to ensure that these deadlines are met.

The table below depicts the federal fiscal year grant amounts awarded by HUD to the Department and the percentage of change from one year to the next.

Table 1

Grant Year	Total Amount Allocated by HUD	Percent Change from Prior Year
2008	\$40,043,225	
2009	\$43,933,530	9.7%
2010	\$43,593,825	-0.01%
2011	\$39,180,788	-10.1%
2012	\$24,000,000	-38.7%

Source: HUD IDIS PR-27 Reports.

Chapter 3-A

**The Department Should Maintain the Documents Necessary to Demonstrate Its Achievement of HUD's Commitment Deadlines**

The HOME Program has two years in which to commit grant funds for a particular year. Each year HUD sets a commitment deadline for a grant year. Currently the deadline is May 31, 2012 for grant year 2010. The calculation for determining whether the commitment deadline was met is cumulative. Therefore, the commitment calculation uses all grant funds received from HUD back to grant year 1992. Because the total amount committed is cumulative, we determined that it was not possible to verify the supporting documentation that makes up the commitment calculation.

We used unaudited data from the Integrated Disbursement and Information System (IDIS) to determine whether the HOME Program met the commitment deadline of May 31, 2012 for grant year 2010 funds. As of February 24, 2012, the HOME Program has \$22,392,690 left to commit by the deadline.

We also evaluated whether HOME met the commitment deadline of June 30, 2011 for grant year 2009 funds. Using the unaudited data from IDIS, we determined that they met the commitment deadline on May 18, 2011.

We were unable to determine if the commitment deadline was met for grant year 2008 funds because the IDIS reports used in the commitment calculation were not available. The reports used to determine if the commitment deadline was met are not always maintained once the deadline has passed. These reports cannot be recreated in IDIS. It is important that the documentation is maintained to support that the commitment deadline was met and to mitigate the risk that funds are recaptured by HUD.

### **Recommendation**

The HOME Program should ensure that the IDIS reports are maintained that show that the commitment deadline set by HUD is met for each grant year.

### **Management's Response**

*Staff agrees. Management agrees that records proving that the commitment deadline has been met annually may not have been readily produced at the time of the audit for grant year 2008 funds. Beginning in June 2010, staff began to consistently maintain IDIS PR27 reports. The reports are saved as they become available to document that the commitment and expenditure deadlines are timely met each HOME program year.*

*Person Responsible: Sara Newsom, Director of HOME Division  
Implementation Date: May 31, 2012*

Chapter 3-B

## **The Department Should Maintain the Documentation Necessary to Demonstrate Its Achievement of HUD's Expenditure Deadlines**

The HOME Program has five years (after the two in which to commit funds), to expend the grant year funds. Each year HUD sets an expenditure deadline for a grant year. Currently the deadline is May 31, 2012 for grant year 2007. The calculation for determining whether the expenditure deadline was met is performed on a cumulative basis. Therefore, the expenditure calculation uses all grant funds received from HUD back to grant year 1992. Because the total amount expended is cumulative and includes expenditures going back to grant year 1992, we determined that it was not possible to verify the supporting documentation that makes up the expenditure calculation.

The HOME Program met the expenditure requirement for grant year 2007 funds on February 24, 2012. We also evaluated whether the HOME Program met the expenditure deadline of March 31, 2011 for grant year 2006 funds. Using the unaudited data from IDIS, we determined that they met the 2006 expenditure deadline on January 3, 2011. We were unable to determine if the expenditure deadline was met for grant year 2005 funds because the IDIS reports used in the expenditure calculation are not maintained by the HOME Program and cannot be recreated. There is one program specialist responsible for this process and the process is not formally documented. In addition, HUD is requiring HOME to expend all grant year 2005 funds by September 30, 2012 or those funds will be subject to recapture by HUD. This requirement will carry forward to the next grant year and each subsequent calendar year.

The HOME Program tracks the grant funds remaining that are set to expire using the IDIS PR27 *Report for Disbursements*. In order to meet the expenditure deadlines, the HOME Program uses the IDIS reports to identify subrecipients that are expending funds and will move the oldest funds to those projects that are

## *An Internal Audit of the HOME Multifamily Program*

actively expending funds. This means that funds for grant year 2005 may be used for projects that were awarded in later years. The HOME Program does not track how the funds are moved around; they just ensure that the funds are expended before the deadline so that the funds are not subject to recapture by HUD. Currently there is \$2,141,569 remaining to expend by the September 30, 2012 deadline for 2005 grant year funds. It is important that the documentation be maintained to support that the expenditure deadline was met and to mitigate the risk of funds being recaptured by HUD.

### **Recommendation**

The HOME Program should:

- maintain the supporting documentation necessary to show that the expenditure deadline set by HUD is met for each grant year, and
- document the process used to expend all grant funds by the deadline HUD sets each year.

### **Management's Response**

*Management agrees that the documentation was not consistently maintained in the past and agrees and understands the importance of documentation to confirm commitment and expenditure requirements are met. An SOP will be developed by June 30, 2012 to ensure that the oldest funds are spent first and to document the transfer of funds. As noted above, in order to ensure that the records are both maintained and immediately available, effective immediately, the staff member responsible for downloading IDIS reports will save them on the "T drive" as they become available to document that the commitment and expenditure deadlines were timely met each HOME program year.*

*Person Responsible: Sara Newsom, Director of HOME Division*

*Implementation Date: June 30, 2012*

## **Appendix A**

### **Objectives**

The objectives of the audit were to determine if the HOME Multifamily Program is:

- committing and expending funds in accordance with laws, regulations, and program requirements,
- awarding contracts and amendments in accordance with program and HUD requirements, and
- processing draws in compliance with laws, regulations, and program requirements.

### **Scope**

The scope of this audit was state fiscal years 2010, 2011, and 2012 to February 1, 2012.

### **Methodology**

- We performed interviews of staff in order to identify the processes used in the program and to determine the controls in place.
- We reviewed background information, including information available on the Department's and HUD's websites, program goals and objectives, organizational charts, policies and procedures, applicable laws, rules, and regulations.
- We identified processes, critical points, and activities directly related to the HOME Multifamily program and identified risks and controls associated with those processes.
- We performed observations of the draw review process with a program specialist.
- We tested a judgmental sample of contract awards to ensure they were setup correctly in the Housing Contract System and awarded in accordance with the Notice of Funding Availability (NOFA) and program rules and requirements.
- We tested a judgmental sample of amendments to ensure they were processed in compliance with the program and HUD requirements.
- We tested a judgmental sample of draws to ensure they were processed in compliance with program requirements, laws, and regulations.
- We reviewed commitments and expenditures to ensure that the HOME Program met HUD's commitment and expenditure deadlines.

### **Criteria**

- 24 Code of Federal Regulations Part 92
- Texas Administrative Code, Title 10, Part 1, Chapter 49
- Texas Administrative Code, Title 10, Part 1, Chapter 50
- Texas Administrative Code, Title 10, Part 1, Chapter 53
- Public Law 107-73
- National Defense Authorization Act of 1991
- Cranston-Gonzalez National Affordable Housing Act, Title II
- Qualified Allocation Plan for fiscal years 2009, 2010, and 2011
- HUD Community Planning and Development Notices 07-06, 07-08, 09-04
- Notice of Funding Availability for HOME Multifamily for fiscal years 2009, 2010, and 2011

## *An Internal Audit of the HOME Multifamily Program*

- The HOME Multifamily policies and procedures

### **Type of Audit**

This audit was a performance audit of the HOME Multifamily Program.

### **Report Distribution**

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

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

### **Project Information**

We conducted audit fieldwork from February 2, 2012 through March 16, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

The following staff performed this audit:

Nicole Elizondo, CFE, CICA, Project Manager  
Derrick Miller  
Matt Embry, CFE

### **Appreciation to Staff**

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

## ***Appendix B***

### **Background**

HOME Multifamily provides funding to units of general local governments, Public Housing Authorities, nonprofits, and for profit entities for the new construction or rehabilitation of affordable multifamily rental developments. The proposed development must include at least eight units of multifamily rental housing to be eligible for funding. Multifamily developments carry long-term rent and income restrictions and may be layered with additional funding sources, including Housing Tax Credits. Development funds are awarded on a first-come, first-served basis through an application submitted under a Notice of Funding Availability (NOFA). In grant year 2009, HUD allocated \$43.9 million in HOME funds to the Department. In grant year 2012, HUD allocated \$24 million in HOME funds to the Department, a decrease of 45.3% over a three year period.

Nonprofits applying for multifamily development funds may also apply for certification as a Community Housing Development Organization (CHDO). Additional funds are available to CHDOs in the form of a grant for operating expenses not related to the development project. In order to be eligible for CHDO project funds and certification, the nonprofit organization must act as a sponsor, developer, or owner of the multifamily housing development that was submitted for the project funding application. CHDO certification is provided by the Department in conjunction with a HOME development award.

Currently the HOME Program has a single-family and a multifamily component that operates under the HOME Program. A recent reorganization separated the management of the HOME Program at the single-family and multifamily level. The multifamily portion of the HOME Program has become a part of the Multifamily Allocation Division.



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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June 1, 2012

*Writer's direct phone # 512-475-3813*  
*Email: [sandy.donoho@tdhca.state.tx.us](mailto:sandy.donoho@tdhca.state.tx.us)*

RE: AN INTERNAL AUDIT OF THE HUMAN RESOURCES DIVISION (REPORT # 12-1051)

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

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) Human Resources Division (Division). We found that the Department is generally in compliance with the selected federal, state, and agency requirements that we tested. However, improvements can be made in ensuring that all required employment posters are accessible to applicants and in ensuring that the I-9 forms which are used to verify an employee's authority to work in the United States are completed as required. We also found that performance evaluations are not always completed timely and in accordance with agency policy.

As part of this audit, we evaluated whether the Department had the required employment posters displayed and accessible to employees and applicants and if the I-9 forms were on-file, signed within three business days of the employee's hire date, and if there was evidence that acceptable documentation was used to verify the employee's authority to work. In addition, we reviewed the security over personnel records and determined if performance evaluations were completed timely and in accordance with agency policy.

### Signage Requirements

There are 12 posters that are required to be displayed and accessible to all employees. All 12 of these posters are displayed at the Department as required. However, three of these posters are also required to be accessible to applicants for employment:

- Employee Polygraph Protection Act,
- Family Medical Leave Act, and
- Equal Employment Opportunity Act and the Americans with Disabilities Act.

All three (100%) of the employment posters required to be accessible to applicants were not. The U.S. Department of Labor states that an employer may post the notices on its website where the job postings are listed stating that "Applicants have rights under Federal Employment Laws" and link to the three posters. It is important that the Department comply with the employment poster requirements because it could be subject to fines for non-compliance.



**Recommendation**

The Department should ensure that the employment posters are accessible to applicants as required.

**Management's Response**

*Management agrees. A notice has been posted on the Department's job posting website with links to each of the three required employment posters.*

*Person Responsible: Gina Esteves*

*Target Date: May 29, 2012*

**Authority to Work in the United States**

We tested all 311 current employees to determine if they had an I-9 form on file, if it was signed within three business days, and if acceptable documentation was used to determine their authorization to work. Of these, 310 employees (99.7%) had an I-9 form on file and one (0.3%) did not. There were 19 employees (6.1%) that did not have I-9 forms signed within three business days as required by federal law. Six (1.9%) did not have evidence that acceptable documentation was reviewed to verify the employee's authority to work.

The I-9 form, *Employment Eligibility Verification*, states that the employer is responsible for ensuring that Section 1 (Employee Information and Verification) is timely and properly completed. The employer is also responsible for completing Section 2 (Employer Review and Verification) by examining the evidence of identity and employment authorization within three business days of the date employment begins. Employers may, but are not required to, photocopy the document(s) presented. However, if photocopies are made, they must be made for all new hires. It is important that the Department be in compliance with these requirements because it could be subject to fines for non-compliance.

**Recommendation**

The Department should ensure that all I-9 forms are completed accurately and timely.

**Management's Response**

*Management agrees. The responsible person, Gina Esteves, Director of Human Resources, will ensure that no new employees are officially allowed to work beyond three (3) business days unless they have fully compliant I-9 materials on file. Policy will be updated on or before June 15, 2012, to reflect this.*

*Person Responsible: Gina Esteves*

*Target Date: Immediate*

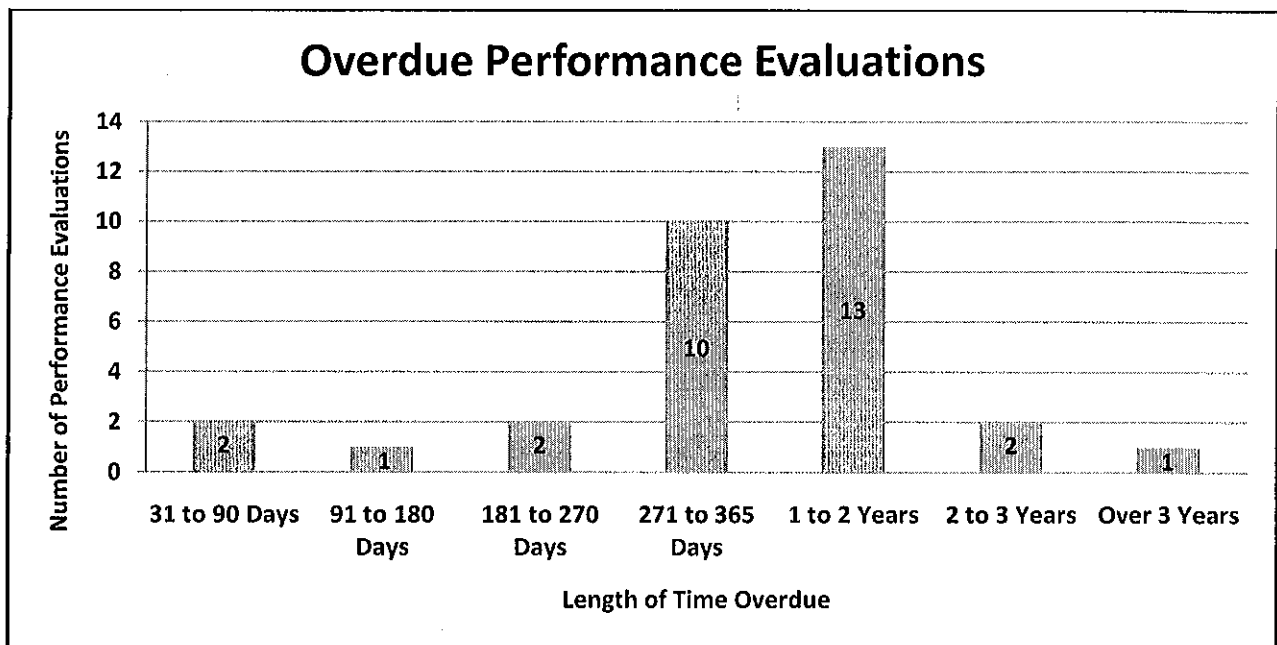
**Security of Personnel Records**

We determined that the Department has the appropriate controls in place to ensure that access to personnel records are limited to authorized employees and that files are consistently safeguarded during and after business hours. We performed the review of the security of personnel records by interviewing Division staff and performing observations of the security measures in place.

**Timeliness of Employee Evaluations**

The Department's Policies and Procedures Manual (May 2009) and the Manufactured Housing Division's Policies and Procedures Manual (April 2010), states that an employee will receive an annual

performance evaluation on the anniversary of the date of employment. We identified 305 of the 311 current employees who should have a performance evaluation on file. Of these employees, 31 (10.2%) did not have a current evaluation on file. All of the employees of the Manufactured Housing Division had a current evaluation on file. The length of time that these performance evaluations were overdue is indicated in the chart below.



These internal policies and procedures also state that if an employee is promoted or transferred they are required to have a performance evaluation six months from the effective date of the promotion or transfer and annually thereafter. A close-out performance evaluation is also required for promoted or transferred employees if they have not received one in the past six months. The close-out performance evaluation should be completed within 30 days of the promotion or transfer. Four of the 31 employees (12.9%) who did not have a current evaluation on file had been transferred or promoted to a new position within the past six months. However, they did not receive a close-out evaluation as required by policy.

The internal policies and procedures also state that newly hired employees will be evaluated no later than 90-days from the date of employment, and again at six months. Of the 79 employees who were hired after the 90-day evaluation requirement was instituted, 27 (34.2%) did not receive a 90-day evaluation. Three (11.1%) of the 27 employees who did not receive a 90-day evaluation worked in the Manufactured Housing Division. Of the 72 employees who were hired after the 6-month evaluation requirement was instituted, 19 (26.4%) did not receive a 6-month evaluation.

**Recommendation**

The Department should ensure that evaluations:

- are completed timely and in accordance with policy, and
- are current prior to transferring or promoting an employee to a new position.

**Management's Response**

*Management agrees. The responsible person, Gina Esteves, Director of Human Resources, will prepare and the Executive Director will approve updated policy to require that there be a current review on file prior to an employee's transfer or promotion and to require that managers responsible for administering reviews be ineligible for merit compensation, promotion, or other benefit increase if they have any reviews ninety (90) days or more past due.*

*Person Responsible: Gina Esteves*

*Target Date: June 15, 2012*

**Policies and Procedures**

The policies and procedures governing employee evaluations for both the Department and the Manufactured Housing Division are inconsistent with the current evaluation forms. The Department's policies and procedures state that a Performance Improvement Plan (PIP) is required for an overall score below 3.0. However, the rating scale was changed and a PIP is now required for an overall score below 2.0. The policies and procedures for the Manufactured Housing Division also state that a PIP is required for an overall score below 3.0. However, the Manufactured Housing Division's performance evaluation form does not use numerical ratings. Instead their evaluation form uses a rating scale of Outstanding, Good, Acceptable, Needs Improvement, and Unacceptable. It is important for employees to receive evaluations in a timely manner so that they are aware of how they are performing their job duties. It is also important for evaluations to be completed so that the Department documents employees' performance. Policies and procedures should reflect the current performance evaluation practices so that employees are aware of the metrics used to rate their performance.

**Recommendation**

The Department should update the policies and procedures for performance evaluations to ensure that they are in-line with the current evaluation forms.

**Management's Response**

*Management agrees. The responsible person, Gina Esteves, Director of Human Resources, will ensure that these policies and procedures are properly updated.*

*Person Responsible: Gina Esteves*

*Target Date: June 15, 2012*

The objective of this audit was to determine if the Human Resources Division is in compliance with selected federal, state, and agency requirements and to determine if performance evaluations are completed timely and in accordance with agency policy. The scope of our fieldwork was fiscal year 2010 to May 18, 2012. Our methodology consisted of interviewing responsible individuals, reviewing documentation, testing the selected requirements, and analyzing performance evaluations.

This audit was conducted as part of our fiscal year 2012 internal audit plan. We conducted our fieldwork in May 2012. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

We would like to extend our sincere thanks to the management and staff of the Human Resources Division for their cooperation and assistance during the course of this audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sandra Q. Donoho', written in a cursive style.

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

Sqd/nae

cc:

Tim Irvine, Executive Director

Bill Dally, Chief of Agency Administration

Gina Esteves, Director of Human resources

4

**BOARD REPORT ITEM**

**INTERNAL AUDIT**

**JUNE 14, 2012**

Presentation and Discussion of the Status of External Audits.

**REPORT ITEM**

There have been eleven external audits or monitoring visits so far this fiscal year. Seven are complete and four are still underway. In addition, HUD will be coming next week to conduct a technical assistance and monitoring review of the Community Housing Development Organizations (CHDOs.)

**BACKGROUND**

The eleven external audits or monitoring visits in fiscal year 2012 to date include:

- the FY 2011 annual statewide audit performed by KPMG,
- the annual financial reporting audits performed by the SAO,
- a DOE monitoring review of the Weatherization Assistance Program,
- a DOE financial monitoring of ARRA Weatherization Assistance Program,
- a review of driver's license records requests for the Human Resources Division,
- a Section 8 Management Assessment Program Review,
- a HUD remote monitoring of the State's NSP obligations,
- a close-out monitoring of the Alternative Housing Pilot Project (AHPP),
- a SAO audit of compliance with the Public Funds Investment Act,
- a HUD-OIG audit of the Neighborhood Stabilization Program, and
- a remote compliance monitoring review of the National Foreclosure Mitigation Counseling Program.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
INTERNAL AUDIT DIVISION – STATUS OF FY 2012 EXTERNAL AUDITS  
June 14, 2012**

External Audits/Activities	Scope/Description	Stage	Comments
KPMG	The scope of the financial portion of the Statewide Single Audit includes an audit of the state’s basic financial statements for fiscal year 2011 and a review of significant controls over financial reporting and compliance with applicable requirements.	Completed	The final report was released in March 2012.
SAO	Annual opinion audits: <ul style="list-style-type: none"> <li>• Basic Financial Statements for the FYE August 31, 2010.</li> <li>• Revenue Bond Program Audit for the FYE August 31, 2010.</li> <li>• FY 2010 Unencumbered Fund Balances.</li> </ul>	Completed	Final reports were released on December 20, 2011.
HUD-OIG	An audit of the Neighborhood Stabilization Program (NSP1). Scope includes subrecipient monitoring and status of program requirements (obligation, procurement, expenditure and program income) for January 15, 2009 to July 15, 2011.	Reporting	Carried over from FY 2011.
HUD	A remote monitoring review of NSP obligations for selected subrecipients.	Completed	The report was sent to the Department on May 9, 2012.
DOE	On-site monitoring of the financial and programmatic aspects of the Weatherization Assistance Program (WAP.) Monitoring was completed in October 2011. Scope included on-site visits to subrecipients in Waco and College Station.	Completed	Report was received November 14, 2011.
NeighborWorks America	Compliance monitoring for grantees that received assistance under the National Foreclosure Mitigation Counseling Program. This grant is administered under the Texas State Affordable Housing Corporation.	Reporting	A report has not been received.
DOE	Financial monitoring of ARRA Weatherization Assistance Program (WAP.)	Completed	Report was received March 15, 2012.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
INTERNAL AUDIT DIVISION – STATUS OF FY 2012 EXTERNAL AUDITS  
June 14, 2012**

External Audits/Activities	Scope/Description	Stage	Comments
DPS	A review of driver's license records requests for the Human Resources Division.	Completed	A report has not been received.
HUD	Technical assistance and monitoring review of the HOME Program. HUD will be reviewing Community Housing Development Organizations (CHDOs).	Planning	HUD plans to conduct their fieldwork the week of June 18, 2012.
HUD	Section 8 Management Assessment Program (SEMAP) Review.	Completed	Report received April 16, 2012.
FEMA	Close out audit of the Alternative Housing Pilot Project (AHHP).	Reporting	FEMA conducted this monitoring visit the week of May 14, 2012.
SAO	An audit of compliance with the Public Funds Investment Act.	Completed	Report was received May 25, 2012.



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**BOARD REPORT ITEM**

**INTERNAL AUDIT**

**JUNE 14, 2012**

Presentation and Discussion of Recent External Audit Reports.

**REPORT ITEM**

Reports were recently received for five of the eleven external audits or monitoring visits that have occurred in fiscal year 2012.

**BACKGROUND**

• **2010 Statewide Single Audit-**

There were three findings identified; none of these findings had questioned costs.

- Non-Compliance – The Department used a modified direct cost methodology which allocates expenses to the various federal programs based on full-time equivalent employees (FTEs) assigned to those programs. The modified direct cost methodology was not submitted to the federal funding agency for approval.
- Significant Deficiency – The Worldtrac application used by ACS to manage Disaster Recovery funds had one developer who had access to migrate code changes into the production environment. The Disaster Recovery Program is now under the General Land Office and the ACS contract is complete and has been closed out.
- Significant Deficiency and Material Non-Compliance – The HUD quarterly performance reports for the Neighborhood Stabilization Program (NSP) were not submitted timely. Only one report was submitted for fiscal year 2011 and that report was 195 days late. It was rejected by HUD. In addition, the HUD Section 3 Summary Report for NSP was submitted timely, but no supporting documentation was maintained to verify the completeness and accuracy of this report. The HUD quarterly performance reports for the Disaster Recovery Program were also not submitted timely. The range was 28 to 148 days late. The Disaster Recovery Program is now under the General Land Office.

• **DOE Financial Monitoring Report -**

DOE conducted a financial monitoring of the Department's ARRA Weatherization Assistance Program (WAP). DOE concluded that the Department is in compliance with most of the policies, procedures and guidance for the program. They identified one finding:

- The payroll time charged against the formula grant funding was not consistent with the budget. The charges were 63% below the budgeted personnel costs. The Department submitted a corrective action plan as required. As the ARRA WAP funding winds down, the Department anticipates that more of the payroll costs will shift from the ARRA WAP funding to the formula grant.

- Section 8 SEMAP Review –  
The Section 8 Management Assessment Program Review, which is an annual review of Section 8 Program performance, rated the Department’s Section 8 Program as a “high performer.” The Section 8 Program scored 100%.
- SAO Report on Compliance with the Public Funds Investment Act –  
The SAO assessed the Department’s compliance with the Public Funds Investment Act (Texas Government Code, Chapter 2256). The Department was determined to be “Fully Compliant.”
- HUD Remote Monitoring of Obligations for the Neighborhood Stabilization Program (NSP) –  
HUD’s Office of Block Grant Assistance reviewed NSP obligations for all contracts previously administered by the Texas Department of Rural Affairs (TDRA) as well as the Brownsville Housing Authority, the city of Irving, the City of Laredo, and Austin Habitat. These contracts totaled \$31.9 million. HUD identified \$10.6 million in unsupported obligations for these contracts. They stated that there were obligations that were reported to HUD in excess of the underlying contracts for several contracts. Also, there was source documentation that was unsigned or undated and did not qualify as an obligation. Most of the discrepancies are tied to contracts formerly administered by TDRA.

**Texas Department of Housing and Community Affairs**

Reference No. 12-15

**Allowable Costs/Cost Principles**

**CFDA 14.257- Homeless Prevention and Rapid Re-Housing Program (HPRP) - ARRA**

Award year - July 21, 2009

Award number - S-09-DY-48-0001

**CFDA 81.042 - Weatherization Assistance for Low-Income Persons**

Award year - December 8, 2009

Award number - 10-02

**CFDA 81.042 - Weatherization Assistance for Low-Income Persons - ARRA**

Award years - April 1, 2009 to March 31, 2012

Award number - EE0000094

**State-Administered CDBG Cluster**

Award year - N/A for disaster-funds and March 3, 2009 for NSP

Award numbers - B-06-DG-48-0002, B-08-DI-48-0001, and B-08-DN-48-0001

**Non-major Programs:**

CFDA 14.231 - Emergency Shelter Grants Program

CFDA 14.239 - Home Investment Partnerships Program

CFDA 93.568 - Low-Income Home Energy Assistance

CFDA 93.569 - Community Services Block Grant

CFDA 97.087 - Alternative Housing Pilot Program

Type of finding - Non-Compliance

Individual State agencies are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with A-87. While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.

Questioned Cost: \$ 0

U.S. Department of Housing and  
Urban Development  
U.S. Department of Energy  
U.S. Department of Health and  
Human Services  
U.S. Department of Homeland  
Security

The indirect cost rate proposal (ICRP) provides the documentation prepared by a State agency, to substantiate its request for the establishment of an indirect cost rate. The indirect costs include: (1) costs originating in the agency carrying out Federal awards, and (2) costs of central governmental services distributed through the State central service cost allocation plan (CAP) that are not otherwise treated as direct costs. The ICRPs are based on the most current financial data and are used to either establish predetermined, fixed, or provisional indirect cost rates or to finalize provisional rates (for rate definitions refer to A-87, Attachment E, paragraph B)

In addition to direct costs and indirect costs, the Texas Department of Housing and Community Affairs (TDHCA) used a modified direct cost methodology to receive cost reimbursement under their Federal awards for select agency wide type expenses. The modified direct cost methodology allocates expenses among various federal programs based on full time employees (FTEs) assigned to each respective federal program. The modified direct cost methodology has not been submitted to their cognizant agent for approval. Therefore, these expenses should have been allocated to the various federal programs based on their approved Indirect Cost Rate Agreement dated August 24, 2011. The approved rate is 43% with a base of direct salaries.

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

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For one specific sample item, the agency wide type expense was for disaster recovery information technology services. TDHCA prepared an analysis of the allocation based on the Indirect Cost Rate Agreement as compared to their modified direct cost methodology. The variances between federal programs were less than \$1,000 per program. The total drawn from the federal programs was less than the 43% that would have been allowable under the Indirect Cost Rate Agreement. Therefore there are no questioned costs.

**Recommendation:**

TDHCA should seek approval for their modified direct cost methodology or use the approved Indirect Cost Rate Agreement.

**Management Response and Corrective Action Plan:**

*The Department will review its methodology for allocating agency wide type expenses and will either seek approval for continued use of the modified direct cost methodology or use the approved Indirect Cost Rate Agreement. Using the approved Indirect Cost Rate Agreement for all agency wide type expenses will ensure that draws are consistent with the approved rate.*

*Implementation Date: August 31, 2012*

*Responsible Person: Ernie Palacios*

Reference No. 12-16

**Allowable Costs/Cost Principles**

**Cash Management**

**Reporting**

**Special Tests and Provisions - Environmental Reviews**

**Special Tests and Provisions - Environmental Oversight**

(Prior Audit Issues - 11-25 and 10-30)

**State-Administered CDBG Cluster**

**Award year - N/A since disaster-based only**

**Award number - B-06-DG-48-0002**

**Type of finding - Significant Deficiency**

Access to migrate code changes into production as well as system administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. Access to deploy and develop code changes should be segregated. Similarly, system administrative access should also be restricted to non-developers. The Texas Department of Housing and Community Affairs (TDHCA) outsources both WorlTrac

and Portfolio maintenance and operations to multiple third-party providers. Portfolio's primary function is applicant eligibility while WorlTrac is the primary source of the financial transactions. During the performance of general controls and application level test work for the WorlTrac and Portfolio applications, one application developer had access to migrate WorlTrac code changes into production and was intentionally assigned this access as part of his daily job function; however, no additional monitoring control was put in place to mitigate the associated risk. This same developer was noted to have administrative access on the WorlTrac application and the database production servers.

Questioned Cost: \$0

U.S Department of Housing  
and Urban Development

Recommendation:

WorlTrac is no longer being used by TDHCA as of September 2011 as the contract with the third-party provider has concluded.

Management Response and Corrective Action Plan:

*As stated in the recommendation, TDHCA has concluded the contract with the third-party provider as of September 2011. Additionally, the third-party provider has removed the administrative access and access to migrate code changes from the application developer.*

*Implementation Date: September 1, 2011*

*Responsible Person: Curtis Howe*

**Texas Department of Housing and Community Affairs  
(General Land Office - effective July 1, 2011)**

Reference No. 12-17

**Reporting**

(Prior Audit Issues - 11-26 and 10-28)

**State-Administered CDBG Cluster**

**Award year - N/A for disaster-funds and March 3, 2009 for NSP**

**Award numbers - B-06-DG-48-0002, B-08-DI-48-0001, and B-08-DN-48-0001**

**Type of finding - Significant Deficiency and Material Non-Compliance**

The Texas Department of Housing and Community Affairs (TDHCA) is required by OMB Circular A-133 and A-102 to submit a HUD 60002 Section 3 Summary Report and Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043) by April 30<sup>th</sup> of each year in a format prescribed by the Department of Housing and Urban Development (HUD) for the Neighborhood Stabilization Program (NSP). For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit form HUD 60002.

Questioned Cost: \$0

U.S. Department of Housing and  
Urban Development

The requirements for submission of a Performance Evaluation Report (PER) pursuant to 42.U.S.C. 12708 and 24 CFR 91.520 are waived for Community Development Block Grant (CDBG) Disaster Recovery Grantees Under 2008 CDBG Appropriations. However, the alternative requirement is that each grantee must submit a quarterly performance report (QPR), as HUD prescribes, no later than 30 days following each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures reported. Each quarterly report will include information about the uses of funds during the applicable quarter including (but not limited to) the project name, activity, location, and national objective; funds budgeted, obligated, drawn down, and expended; the funding source and total amount of any non-CDBG disaster funds; beginning and ending dates of activities; and performance measures such as numbers of low- and moderate-income persons or households benefiting. The quarterly report to HUD must be submitted using HUD's Internet-based Disaster Recovery Grant Reporting (DRGR) System and, within 3 days of submission, be posted on the grantee's official Internet site open to the public (February 13, 2009 Federal Register Vol. 74, No. 29, page 7252).

HUD 60002 Report (NSP)

The HUD 60002 Report for NSP was submitted timely for the fiscal year ending January 31, 2011. However, no supporting documentation was maintained to verify the completeness and accuracy of the amounts being reported.

DRGR Disaster Report - Quarterly Performance Report

TDHCA is responsible for submitting the QPR for the 2<sup>nd</sup> Supplemental Rita funding and NSP. None of the QPRs were submitted within the thirty-day requirement for the 2<sup>nd</sup> Supplemental Rita Disaster Recovery Fund per review of the DRGR System. The range was twenty-eight to one hundred forty-eight days late. The September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011 reports were posted to the TDHCA web site; however, the timing of when these reports were posted could not be verified to confirm the 3-day posting requirement after submission.

Additionally per review of the DRGR System, the September 30, 2010 report was the only QPR that was submitted for NSP as of September 2011. It was submitted approximately one hundred ninety-five days late and subsequently rejected awaiting modifications. All other required DRGR reports for NSP had not been submitted as of September 2011; therefore, none of these reports could be tested for completeness and accuracy.

## HOUSING AND COMMUNITY AFFAIRS, TEXAS DEPARTMENT OF

In July 2011, the Texas General Land Office (GLO) was designated to administer all CDBG funds relating to disaster recovery. GLO was not responsible for filing any of the above DRGR disaster reports during fiscal year 2011. TDHCA continues to administer the NSP portion of the CDBG funds.

### Recommendation:

GLO should consider the above reporting requirements as they design their respective procedures to administer the CDBG program. TDHCA should maintain documentation to support the HUD 60002 reports filed and they should establish a process for filing the required NSP reports.

### Management Response and Corrective Action Plan - GLO for Disaster DRGR reports:

*The General Land Office (GLO) agrees with the finding. The submission of DRGR quarterly reports is dependent upon various factors such as: (1) Action Plan approval date, (2) HUD Directives, and (3) budget updates.*

- (1) Action plan approval date: The Action Plan must be submitted and approved by HUD prior to submission and approval of the QPR. The State makes every attempt to submit the Action Plan two weeks after the end of the quarter. HUD may take longer in their review pushing the QPR submission date past the due date.*
- (2) HUD directives: During the Action Plan review, HUD may reject the Action Plan and require the State to update performance measures delaying the review period and QPR submission.*
- (3) Budget updates: The State makes every effort to submit the Action Plan two weeks after the end of the quarter with all necessary budget updates. The volume of budget updates and HUDs approval of the QPR are the factors impacting the Action Plan submission which ultimately delays the submission of the QPR. Budget updates are necessary to ensure prompt payment to grantees and vendors.*

*The GLO will continue to work with HUD to submit timely quarterly reports through improved record keeping and tracking mechanisms. Quarterly reports will be date stamped; correspondence will be initiated and retained in readable files; and report submission activity shall be tracked.*

*The GLO will post the initial submitted QPR to our internet site within three days. Upon approval of the QPR by HUD, the posted QPR will be updated with the approved version. Records to include screen shots and date stamp will be kept and tracked. If HUD requires modifications to the report, GLO will post any updated report within three days of the subsequent submission.*

*Implementation Date: September 1, 2011*

*Responsible Persons: Luis A. Arellano, Phyllis Fould, and Magdalena Blanco*

### Management Response and Corrective Action Plan - TDHCA for NSP DRGR reports:

*The Texas Department of Housing and Community Affairs (TDHCA), as the state agency charged with administration of the Neighborhood Stabilization Program (NSP) in Texas, is required to file quarterly progress reports (QPRs and each a QPR) with the U. S. Department of Housing and Urban Development (HUD). At the outset of NSP TDHCA failed to organize and staff to be able to file QPRs on a proper timely basis. Efforts to utilize non-NSP staff to assist in addressing QPR requirements were not successful, and in August 2011 TDHCA hired an NSP Information Specialist to assume responsibility for the QPRs. The NSP Information Specialist has received the training on the HUD systems used to file QPRs and on the requirements of NSP. It is necessary to submit QPRs in sequential order and to have each QPR accepted by HUD before filing the next QPR. Since the effective date of the audit TDHCA has submitted, received requests for corrections, corrected, and resubmitted successfully its QPR for 3rd quarter 2010, 4th quarter 2010, and 1st quarter 2011. TDHCA has submitted its QPR for the 2nd quarter of*



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

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2011 and is awaiting HUD approval. The 3rd quarter 2011 QPR is ready to submit as soon as 2nd quarter is approved. The 4th quarter QPR is due January 31, 2012. TDHCA believes, assuming no unanticipated issues are raised in the HUD review process, it will be current on its QPR filings by February 2012 and that it will be able to remain current. Due to HUD review and approval timing, it is anticipated that the 1st Quarter, 2012 report will be timely submitted on or before April 30, 2012. Throughout this process HUD staff has been kept apprised on a current basis. Because the corrective work has continued into fiscal year 2012, it is anticipated this will, however, be a recurring finding in that year.

*Implementation Date:* April 30, 2012

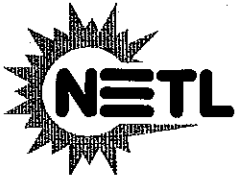
*Responsible Person:* Marni Holloway

*Management Response and Corrective Action Plan - TDHCA NSP HUD 60002 Report:*

*TDHCA Compliance and Monitoring Division is drafting a monitoring plan and tool for review and verification of Section 3 data submitted by all subgrantees. It is anticipated that data provided for the 2011 Program Year Section 3 report will be subject to monitoring in accordance with Compliance and Asset Monitoring's established protocols.*

*Implementation Date:* February 29, 2012

*Responsible Person:* Patricia Murphy



March 1, 2012

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

**SUBJECT:** Financial Management and Administration Monitoring Report under the  
Weatherization Assistance Program (WAP) American Recovery and Reinvestment  
Act (Recovery Act) Grant Award No. DE-EE0000094 and Grant Award No. DE-  
EE0000190 with the State of Texas

Dear Ms. Boston:

The fiscal year 2011 financial monitoring of Texas's Weatherization Assistance Program, has been completed via a desk audit. A copy of the report is enclosed.

The programmatic review was conducted on-site by the Project Officers, Paul Jiacoletti and Carl Saueressig and the results of that review were provided separately.

Thank you for your cooperation throughout the monitoring process.

Sincerely,

A handwritten signature in black ink that reads "Lisa Kuzniar". The signature is fluid and cursive, with a long horizontal stroke at the end.

Lisa A. Kuzniar  
Contracting Officer

cc: Paul Jiacoletti, GFO  
Carl Saueressig, GFO  
Kellyn Cassell, NETL



**STATE OF TEXAS  
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
WEATHERIZATION ASSISTANCE PROGRAM (WAP) AWARD ADMINISTRATION  
MONITORING REPORT  
FOR  
RECOVERY ACT GRANT NO. – DE-EE000094  
AND  
ANNUAL GRANT NO. – DE- EE0000190**

**March 1, 2012**

**FINANCIAL MANAGEMENT AND ADMINISTRATION**

Information contained in this Financial Monitoring Report is based on the Grantee's responses received via the on-site monitoring checklist, the financial monitoring conference call, and/or written/oral communications with the Grantee. The state of Texas provided thorough answers that could be verified through Uniform Statewide Accounting System (USAS) rules; 24 CFR PART 85 Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments; the Window on State Government Procurement Manual; the Comptroller's Payroll Policy and Procedures Guide; the Grantee Personnel Policies and Procedures Manual; and the Texas State Record Retention Schedule. The Grantee was both prompt and courteous in providing all requested documents and information.

The information contained in this Award Administration Monitoring Report is for Program Year 2011 and applies to both the Annual Weatherization Assistance Program (WAP) grant (DE- EE0000190) and the American Recovery and Reinvestment Act (Recovery Act) grant (DE-EE0000094), unless specified otherwise.

**ACCOUNTING SYSTEM**

The Texas Department of Housing and Community Affairs (TDHCA) adheres to the state's financial policies and procedures, which are located in the Standard Operating Procedure Manual. A hard copy of this manual was provided for the purpose of this review.

Federal funds and general revenue appropriations follow a modified accrual basis of accounting. TDHCA proprietary funds operate similarly to other business activities and follow an accrual basis of accounting.

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

The Grantee's financial system is capable of tracking and reporting Recovery Act funds separately from other funds. TDHCA established specific index coding for individual grants and grant-related revenues and expenditures are uniquely identified within the Grantee's accounting system.

## STATE AUDITS

Audits are conducted on an annual basis by the Secretary of State Audits Division, State Auditor's Office (SAO). The most recent independent audit was completed December 20, 2010, with no findings. The Grantee is also subject to an annual A-133 audit. The state's most recent A-133 audit contained no findings for the WAP.

## CASH ADVANCES

TDHCA employs cash management techniques to minimize Grantee administration balances. Requests for advances are reviewed by the program area to ensure minimum cash on hand for subrecipients. Advances must be deposited into the Texas State Treasury, which is an interest-bearing account. The Grantee tracks the interest earned by the Subgrantees on a monthly basis and the interest is remitted quarterly to the federal government.

## UNCOSTED BALANCES

As of December 16, 2011, the uncosted balance, per the National Energy Technology Laboratory (NETL), of the WAP Annual grant (DE-EE0000190) was \$8,653,924.44 and \$36,302,159.52 for the WAP Recovery Act grant (DE-EE0000094).

The Grantee is currently spending an average of \$13-14 million WAP dollars per month, and expects to reach full expenditure of both grants by the end of the award budget periods.

For the Annual funds, the Grantee anticipates within one full year that the grant will reach full expenditure, including all carryover amounts. Subrecipients utilize multiple funding sources that allow for a blended costing approach and full expenditure of U.S. Department of Energy (DOE) funds at the end of the Annual grant award.

The Grantee anticipates full expenditure of the WAP Recovery Act grant funds. The Department submitted a letter on December 21, 2011, to DOE requesting a modification of the performance period for three additional months.

## PERSONNEL PAYROLL

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

The Grantee provides a standard system for processing and recording employee leave activity in accordance with the state leave policy. This information is available via the TDHCA intranet. The Grantee indicated no new changes to this process.

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

Each month, a quality assurance check is performed by a Human Resources (HR) Specialist for all Payroll Action Forms (PAFs) that are processed for that month. The HR Specialist reviews the payroll master and the Genesis system to ensure that each PAF processed is accurately recorded and entered. Once the information is verified for each PAF, a review is also completed by the HR Manager. Copies of the PAFs and monthly payroll master are filed by the HR Specialist. The Grantee indicated no new changes to this process.

Payroll records for both grants were reviewed for a three-month period (January through March 2011). The following tables contain the results of this review.

Actual WAP Annual Payroll	
January Total	\$ 13,612.00
February Total	\$ 7,371.00
March Total	\$5,052.00
Total Monthly Payroll Paid (Jan -- Mar)	\$26,035.00
Total Monthly Average Paid	\$8,678.33.
Budgeted WAP Annual Payroll	
Total 12-Month Budget from Personnel	\$282,428.00
Total Monthly Budgeted Average	\$23,535.00
<b>Variance (-63%)</b>	<b>\$14,857.00</b>

The review of Annual payroll records indicated that labor categories presented against that fund were consistent; however, the time being charged was 63 percent below the approved budget.

**Finding:** In the course of this review it was noted that labor categories presented against Annual funds were consistent; however, the time being charged was substantially inconsistent with the approved budget. Specifically, the charges reviewed were approximately 63 percent below the approved budgeted personnel costs. The degree of inconsistency is extreme in comparison to other WAP grant recipients who presented lower than estimated payroll expenditures. The Project Officer's Technical Monitoring Report also noted this issue.

When this issue was discussed with the Grantee, they stated that it is anticipated that labor charges will become more in line as there are more expenditures to the grant as described in the "Uncosted Balances" section of this report, which shows the remaining balance of the Annual grant as \$8,653,924.44.

**Recommendation:** TDHCA should submit a Corrective Action Plan within 60 days of receipt of this report that illustrates a path forward to expend the remaining uncosted balances and distribute spending more consistently across both WAP grants, considering the ramping down of the ARRA award, throughout the remaining grant period.

<b>Actual WAP Recovery Act Payroll</b>	
January Total	\$ 125,658.00
February Total	\$ 129,311.00
March Total	\$ 116,379.00
Total Monthly Payroll Paid (Jan – Mar)	\$371,348.00
Total Monthly Average Paid	\$123,783.00
<b>Budgeted WAP Recovery Act Payroll</b>	
Total 36-Month Budget from Personnel	\$4,078,721.00
Total Monthly Budgeted Average	\$113,297.00
<b>Variance (+9%)</b>	<b>\$10,486.00</b>

The review of Recovery Act payroll records indicated that time being charged and labor categories are consistent with the approved budget for the WAP Recovery Act grant.

### EQUIPMENT AND VEHICLES

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

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

No vehicles or equipment have been acquired or leased with WAP Annual or Recovery Act funds.

### MATERIALS AND SUPPLIES

TDHCA has standard operating procedures for purchasing/procurement. The manual was provided electronically for the purpose of this review. All purchases require prior supervisory approval and are made in accordance with the policies and procedures outlined in the Procurement Manual, as well as any other applicable federal requirements. The Grantee indicated no new changes to this process.

### PROCUREMENT

The Grantee follows the Comptroller's procurement policies outlined by the Window on State Government Procurement Manual, which is available online at: <http://www.cpa.state.tx.us/procurement/pub/manual/>.

The majority of subcontracts under these WAP Annual and Recovery Act grants were awarded on a competitive basis. The Grantee indicated no new changes to this process.

Subcontracts

The Grantee provided a complete list of all Annual and Recovery Act subcontract agreements. Three Annual WAP subcontracts and three WAP Recovery Act subcontracts were chosen at random and reviewed for the required federal flow-down provisions.

<b>WAP Annual Subcontracts Reviewed</b>	
Economic Opportunities Advancement Corporation of PR XI	\$ 173,964.00
Texoma Council of Governments	\$ 275,659.00
Community Action Committee of Victoria	\$ 267,042.00
<b>WAP Recovery Act Subcontracts Reviewed</b>	
Hill Country Community Action Association, Inc.	\$ 2,216,779.00
Sheltering Arms, Inc.	\$ 11,176,032.00
Dallas County Department of Health and Human Services	\$6,738,109.00

The Grantee complies with the required flow-down provisions for both WAP Annual and the Recovery Act grants.

Invoices

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

Invoices are processed within six working days by the Financial Administration after review by the WAP Contract Specialist. The invoice is entered into the accounting system and batches daily. The batch is reviewed by a senior accountant. After review, invoices are returned to the accountant for ASAP system draw, and a notification is sent when funds are received. A deposit journal is entered into the system and payment vouchers are released the same day. The Grantee indicated no new changes to this process.

Davis-Bacon Act – Applicable to Recovery Act Grant Only

TDHCA is in compliance with the appropriate Davis-Bacon Act requirements. Copies of the payroll records are collected, maintained, and reviewed on a weekly basis by TDHCA. Original payroll records are collected and maintained by the subrecipients. Interviews are conducted by the subrecipient's on a regular basis. Current Davis-Bacon wage determinations are being utilized and the Grantee's award contract has been amended to include the latest revisions to the wage determinations and the required clauses. The Grantee indicated no new changes to this process.



## Subgrantee Financial Monitoring

TDHCA performs financial monitoring of the local Weatherization Agencies, and procedures are in place to ensure that an appropriate sample of contractor files is reviewed. During this review, contractor invoices, payments to the contractor, the general ledger entry of the billing to the correct budget category, and monthly expenditure and production reports are all examined for accuracy.

## RECORD RETENTION

The Grantee and each subawardee receiving federal financial assistance maintain records and generate reports as required by 10 CFR Part 440.24 and 10 CFR part 440.25. Per the Office of Management and Budget (OMB) guidelines and the subawardee contracts, records are maintained for a minimum of three years. The Grantee follows the guidelines indicated in the Texas State Record Retention Schedule, which also requires records to be retained for three years.

## SUMMARY

The results of this Financial Monitoring Review found that the Recipient is in compliance with most of the established policies, procedures, and guidance related to the financial management of this WAP Recovery Act grant; however, the Recipient did have one finding in "Payroll" section, addressed above. The Recipient had no findings for WAP in the most recent A-133 audit.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

*www.tdhca.state.tx.us*

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April 17, 2012

*Direct Phone: (512)475-2125*

*Email:*

*michael.deyoung@tdhca.state.tx.us*

Ms. Lisa Kuzniar  
Contracting Officer  
National Energy Technology Laboratory  
P.O. Box 880  
Morgantown, WV 26507

RE: TDHCA RESPONSE TO MARCH 1, 2012 MONITORING REPORT

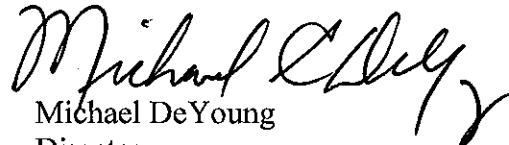
Dear Ms. Kuzniar:

The Texas Department of Housing and Community Affairs ("the Department" or "TDHCA") is in receipt of the Financial Management and Administrative Monitoring Report dated March 1, 2012 regarding our American Recovery and Reinvestment Act ("ARRA") Weatherization Assistance Program contract with the Department of Energy. This letter serves as the Department's corrective action plan in response to the one finding included in the report.

During the ARRA weatherization grant period, Texas Subrecipients produced ARRA units at an unprecedented rate. The Department charged costs at a rate that was in proportion to the amount of activity observed through monitoring at the Subrecipient level and the amount of staff time spent supporting the grant. The Department has already experienced an increase in formula grant activity at the Subrecipient level. As the Department successfully winds down the ARRA grant, we expect that weatherization activity for the formula grant will return to its pre-ARRA level. In turn, Department staff will spend more time and resources supporting the grant, expending all grant funds by the end of the grant period. Under regular operation of our program, the Department will always strive to expend 100% of grant funds in accordance with Department of Energy requirements within the grant period.

The State of Texas appreciates the continued support and guidance provided by DOE and its partner agencies. We will continue to provide the Monitoring and Training and Technical Assistance required to ensure that our program operates as efficiently and transparently as possible, and we thank you for your contributions to our process.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael DeYoung", written in a cursive style.

Michael DeYoung  
Director  
Community Affairs Division

MED/sdg

Cc: Paul Jiacoletti  
Tim Irvine  
Brooke Boston



U.S. Department of Housing and Urban Development  
Fort Worth Regional Office, Region VI  
Office of Public Housing  
801 Cherry Street  
Unit #45, Suite 2500  
Fort Worth, TX 76102

April 16, 2012

TDHCA SECTION 8

APR 27 2012

RECEIVED

Willie Faye Hurd  
Executive Director  
Texas Department of Housing and Community Affairs  
P.O. Box 13941  
Austin, TX. 78711

Dear Ms. Hurd:

Congratulations on your Section Eight Management Assessment Program (SEMAP) rating as a High Performer. We appreciate your time and attention to the SEMAP assessment process. The SEMAP is designed to:

- Assess whether the Section 8 tenant-based assistance programs operate to help eligible families afford decent rental units at the correct subsidy cost;
- Establish a system for the U.S. Department of Housing and Urban Development (HUD) to measure public housing agency (PHA) performance in key Section 8 program areas and to assign performance ratings;
- Provide procedures for HUD to identify PHA management capabilities and deficiencies in order to target monitoring and program assistance more effectively; and
- Provide PHAs with a performance analysis tool to assess and improve their own program operations.

Your score and performance rating is enclosed with this letter. I would like to take this opportunity to commend you on your rating as a High Performer. Thank you for your cooperation in the SEMAP process. Should you have questions or comments, please contact the following individuals:

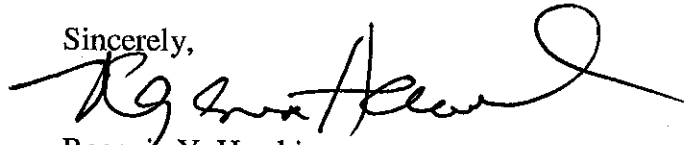
RECEIVED

APR 27 2012

TDHCA SECTION 8

Public Housing Information (PIC) System: Garrett Sauve 817-978-5592  
Management/Administration of Section 8: Ethel Montague 817-978-5717  
SEMAP Process: Regina Jones 817-978-5706

Sincerely,

A handwritten signature in black ink, appearing to read "Regina Y. Hawkins". The signature is fluid and cursive, with a large loop at the end.

Regenia Y. Hawkins  
Director  
Office of Public Housing

Enclosure

The **TDHCA** final SEMAP score for the fiscal year ended **12/31/2011** is **100**. The following are your scores on each indicator:

Indicator	1	Selection from Waiting List (24 CFR 982.54(d)(1) and 982.204(a))	<b>15</b>
Indicator	2	Reasonable Rent (24 CFR 982.4, 982.54(d)(15), 982.158(f)(7) and 982.507)	<b>20</b>
Indicator	3	Determination of Adjusted Income (24 CFR part 5, subpart F and 24 CFR 982.516)	<b>20</b>
Indicator	4	Utility Allowance Schedule (24 CFR 982.517)	<b>5</b>
Indicator	5	HQS Quality Control (24 CFR 982.405(b))	<b>5</b>
Indicator	6	HQS Enforcement (24 CFR 982.404)	<b>10</b>
Indicator	7	Expanding Housing Opportunities	<b>5</b>
Indicator	8	Payment Standards(24 CFR 982.503)	<b>5</b>
Indicator	9	Timely Annual Reexaminations(24 CFR 5.617)	<b>10</b>
Indicator	10	Correct Tenant Rent Calculations(24 CFR 982, Subpart K)	<b>5</b>
Indicator	11	Pre-Contract HQS Inspections(24 CFR 982.305)	<b>5</b>
Indicator	12	Annual HQS Inspections(24 CFR 982.405(a))	<b>10</b>
Indicator	13	Lease-Up	<b>20</b>
Indicator	14	Family Self-Sufficiency (24 CFR 984.105 and 984.305)	<b>NA</b>
Indicator	15	Deconcentration Bonus	<b>0</b>



May 25, 2012

Mr. Tim Irvine, Executive Director  
Department of Housing and Community Affairs  
P.O. Box 13941  
Austin, TX 78711-3941

Dear Mr. Irvine:

The State Auditor's Office (SAO) has completed fieldwork for its biannual project of investment compliance. This project includes compliance with the Public Funds Investment Act ("PFIA", Texas Government Code, Chapter 2256) and other investment requirements for institutions of higher education established in Article III of the General Appropriations Act and by the SAO at <http://www.sao.state.tx.us/Resources/IntAud/pubfunds.html>.

We plan to release our report on this project in June. The report will include your agency, but it will not require a response. The report will consist of a brief summary analysis of the agencies and higher education institutions we reviewed. It will also include tables describing any area(s) of noncompliance and comments describing the area(s) of noncompliance for each entity. In the case of your agency, the report will include the following information:

PFIA Compliance Status: Fully Compliant

If you have any questions about this project, please call me or Angelica Ramirez, Audit Manager, at (512) 936-9500.

*Anthony W. Rose*

Anthony W. (Tony) Rose, MPA, CPA, CGFM  
Project Manager

cc: Mr. David Cervantes, Director of Financial Administration  
Ms. Sandy Donoho, Director of Internal Audit

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
Austin, Texas 78711-2067

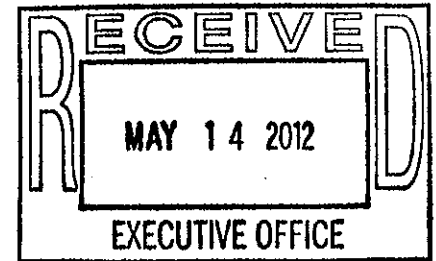
Phone:  
(512) 936-9500

Fax:  
(512) 936-9400

Internet:  
[www.sno.state.tx.us](http://www.sno.state.tx.us)



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
Fort Worth Regional Office, Region VI  
Office of Community Planning and Development  
801 Cherry Street, Unit #45, Ste. 2500  
Fort Worth, TX 76102  
www.hud.gov



Timothy Irvine, Executive Director  
Texas Department of Housing  
and Community Affairs (TDHCA)  
221 East 11<sup>th</sup>  
P.O. Box 13941  
Austin, Texas 78711-3941

MAY 9, 2012

Dear Mr. Irvine:

**SUBJECT:** Remote Monitoring Review of Neighborhood Stabilization Program (NSP)  
Obligations – Grant No: B-08-DN-48-0001

On October 18, 2011, TDHCA sent a letter to HUD Fort Worth stating that several discrepancies with reported obligations were discovered during TDHCA's review of NSP records obtained from the former Texas Department of Rural Affairs (TDRA). TDRA was allocated funds under the Texas NSP grant which TDHCA administered. TDHCA's letter concluded that TDRA obligated funds without valid contracts covering the full amount of reported obligations. The contracts in question covered awards made by TDRA to the Texoma Housing Finance Corporation (Texoma HFC). As the deadline for obligation of NSP funds had passed, TDHCA requested clarification as to whether they could re-obligate the funds to other activities.

Upon review of the information provided by TDHCA, HUD's Office of Block Grant Assistance (OBGA) decided that a remote monitoring review of the State's NSP obligations should be undertaken to identify if this was an isolated incident or a systemic issue with all of the State's NSP contracts. HUD's review of TDHCA's NSP1 obligations was initiated on December 23, 2011 and the following sample of contracts were reviewed:

- All contracts previously administered by TDRA
- Brownsville Housing Authority (TDHCA contact no. 77090000105)
- City of Irving (TDHCA contact no. 77090000106)
- City of Laredo (TDHCA contact no. 77090000107)
- Austin Habitat (TDHCA contact no. 77090000213)

A financial spreadsheet that summarized obligations by property address and activity was included with the source documentation received from TDHCA. When including administration budgets for each of the subrecipients, the spreadsheet accounted for \$31,881,308.99 worth of obligations. Source documentation was then reconciled against the obligations listed in the spreadsheet. The HUD review identified \$21,207,734.27 in valid NSP obligations, resulting in a difference of \$10,673,574.72 that could not be supported by the source documentation received.



HUD found two primary reasons for the large number of invalid obligations. First, obligations were reported in excess of the underlying contracts for several contracts. For example, Texoma HFC - Grayson County (TDHCA contract no. 77099999122) listed \$8,267,385.72 in obligations per the obligation spreadsheet, yet the underlying contract amount between TDRA and Texoma HFC - Grayson County was only for \$2,650,000. All of the obligations reported in excess of \$2,650,000 were deemed to be invalid. Secondly, source documentation that was unsigned or undated was determined not to be sufficient to qualify as an obligation. This problem was most evident in Texoma HFC - Fannin County as only \$25,000 was deemed to be valid due to this issue.

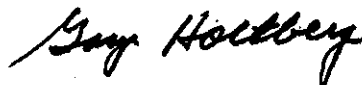
The discrepancies between reported and actual obligations can largely be tied to contracts that were administered by TDRA. Considering that all of the TDRA-administered contracts have been reviewed and that HUD's Office of Inspector General is also auditing TDHCA's obligations, HUD will not proceed with any further monitoring of the State of Texas' NSP1 obligations at this time.

Enclosed you will find a summary of the results of this review. Please examine this information and provide a written response within 30 days of the date of this letter. Should TDHCA have additional information to support any or all of the funds identified as being obligated by the September 3, 2010 deadline it should be included with the response. Upon review of the response, a final determination will be made with respect to funds subject to recapture. OBGA has advised that funds that were not obligated by the obligation deadline are subject to recapture per 73 FR 58330 Part II (M)(1).

With the expenditure deadline of March 3, 2013 approaching, TDHCA should closely monitor high-risk subrecipients to ensure that contracts are being executed accurately to reflect the expenditures being reported.

We appreciate the cooperation and assistance extended to HUD by Ms. Marni Holloway and her staff. If you have any questions about this letter or the monitoring review in general, please contact Mr. William Bedford, Community Planning and Development Specialist, at (817) 978-5946.

Sincerely,



*for* Shirley J. Henley  
Director

cc: Tom Gouris, Deputy Executive Director for Housing Programs, TDHCA  
Marni Holloway, NSP Director, TDHCA

Enclosure



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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J. Mark McWatters

June 6, 2012

Writer's direct phone # 512-475-3296  
Email: [tim.irvine@tdhca.state.tx.us](mailto:tim.irvine@tdhca.state.tx.us)

Ms. Shirley Henley, Director  
U.S. Department of Housing and Urban Development  
Fort Worth Regional Office, Region VI  
Office of Community Planning and Development  
801 Cherry Street, Unit #45, Ste. 2500  
Fort Worth, TX 76102

**RE: REMOTE MONITORING REVIEW OF NEIGHBORHOOD STABILIZATION PROGRAM (NSP  
OBLIGATIONS – GRANT NO: B-08-DN-48-0001)**

Dear Ms. Henley:

TDHCA staff has carefully reviewed your letter of May 9, 2012, and respectfully requests reconsideration of the amount determined to be invalid obligations. We have three primary concerns that impact the determination of the amount.

The first concern arises from the method of determining the total difference between obligations sufficiently supported by documentation and amounts reported by TDRA and TDHCA as obligations. As an accompaniment to the obligation records provided to HUD in December 2011, a spreadsheet was prepared which summarized the calculated totals for all obligation documents provided. The spreadsheet was provided as a convenience and was not intended to revise obligation amounts previously entered in DRGR at the obligation deadline.

NSP subrecipients rarely presented obligation documents that exactly totaled their contract amount, and in some instances the obligations were less than the contract amount and in others they were more. The spreadsheet captures the total obligations represented by that documentation, rather than the amount entered in DRGR – which was constrained by the NSP Subrecipient Contract amount and the availability of documents at the obligation deadline. The method for determining the total difference should be calculated from obligation amounts entered in DRGR rather than those presented in the spreadsheet.

The second concern is tied to calculation of obligation amounts and allowable activity delivery costs. In several instances, the detailed spreadsheets accompanying the May 9, 2012, letter include the correct amounts for the corresponding obligation documents, but budgeted amounts for activity delivery and contingency are not included. This oversight creates an appearance that the obligation amount entered in DRGR was not fully supported. The *Guidance for Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities* Policy Alert issued April 23, 2010, describes the obligation of

activity delivery costs similarly under all eligible uses, "Other costs expected to be incurred in connection with the rehabilitation of the specific property (e.g., legal fees) may also be recorded as obligated when the contract is awarded or other obligating action is taken." In addition, guidance regarding the obligation of construction contingency funds is provided by FAQ 593, "a grantee can include a reasonable level of contingency in the total detailed construction cost estimate and thus within the amount obligated in the developer agreement."

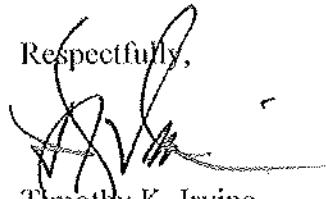
The Texas NSP acted in accordance with above noted published HUD guidance in obligating activity delivery and contingency funds. These amounts should be considered in calculations of the valid obligation amounts. The impacted spreadsheets have been modified and the corrected valid obligation amount added as a column in HUD's summary spreadsheet in the attachment.

The third concern is created by a determination that certain obligation documents are not valid. For the Texoma HFC Fannin County contract #77099999181, the purchase agreements and construction contracts do not have execution dates. In Texas, contracts are not required to be dated in order to be considered valid. We know the date that each document was attached in the TDHCA Housing Contract System, as each is named by the system with a convention which includes the date, therefore we know that the documents were executed on or before the obligation deadline and were valid and existing contracts prior to that date.

Calculation of the difference between the Corrected Obligation Amount and the QPR Obligations amount indicates that TDRA staff entered obligations of \$6,167,982.19 in DRGR that was not fully supported. Correspondence between TDRA staff and their subrecipients, along with entry of contract budgets in the Housing Contract System show a "meeting of the minds" to amend the contracts to the obligation amounts, but TDHCA is not able to locate actual amendments. TDRA was dissolved by legislative action, and will have no further involvement with NSP.

TDHCA is requesting authority to properly obligate and expend the full NSP1 Grant amount of \$101,996,848.00. As indicated by the results of the HUD monitoring, TDHCA properly obligated the funds under their administration at the deadline, and has continued to successfully manage those contracts. Several multi-family transactions, expansion of funding to current subrecipients, and contracts to new subrecipients will allow TDHCA to fully expend the NSP1 funds in service to Texas communities in need.

Please feel free to contact Marni Holloway, NSP Director at 512/475-3726 if you should have any questions or require further information.

Respectfully,  
  
Timothy K. Irvine  
Executive Director

TKI/mh

cc: William Bedford, HUD  
Stephen Eberlein, HUD

6

**BOARD REPORT ITEM**

**INTERNAL AUDIT**

**JUNE 14, 2012**

Presentation and Discussion of the Status of Prior Audit Issues.

**REPORT ITEM**

Internal Audit tracks prior audit issues from both internal and external auditing or monitoring reports. These issues are followed up and cleared as time allows.

**BACKGROUND**

Of the 30 prior audit issues:

- 8 issues previously reported as “implemented” were verified and closed by internal audit. (These issues are not on the attached list.)
- 17 issues were reported by management as “implemented” and are reflected on the attached list. These will be verified and closed by internal audit once we have reviewed the supporting documentation.
- 5 issues are “pending.” Internal audit will verify and close these issues once they are reported as “implemented.” Of these, 3 are for the Neighborhood Stabilization Program (NSP), 1 is for the Homelessness Prevention and Rapid Re-Housing Program (HPRP), and 1 is for the Weatherization Assistance Program (WAP).

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** There are no formal timing requirements or goals in place for loan closing. Based on workload estimates provided by NSP management, there is not enough staff to close all the loans by the August 31, 2011 initial closing deadline.

NSP has four staff for loan closers. However, two have additional responsibilities apart from closing loans. It is possible to process a homebuyer loan in 45 working days (or nine weeks) from underwriting to closure. This includes the 30 days required by legal for loan document preparation and review. In the private sector, it takes approximately two weeks to process a homebuyer loan and full-time loan processors can complete ten to fifteen closings each month. It is important to note that non-homebuyer transactions can be more complex and may require more time and effort for the loan processor. To assess the feasibility of meeting the August 31, 2011 deadline, we considered different staffing scenarios for processing the estimated 400 loans and concluded that it is highly unlikely that NSP will be able to meet the deadline with the current staffing level.

If NSP is unable to close the estimated number of loans by August 31, 2011, homebuyers awaiting closings could be without housing or incur additional expense in finding a temporary place to live.

**Recommendation:** The Department should re-evaluate the resources of the NSP and reallocate staff as necessary to ensure that there are an adequate number of loan closers to complete the anticipated influx of closings. In addition, NSP should redistribute responsibilities to ensure that employees who conduct homebuyer loan closings can focus primarily on that task.

**Management Response:** Management concurs and has re-allocated staff resources in order to ensure that homebuyer transactions are processed timely. Management will monitor workflow and as bottlenecks are forecast and identified, adjust resources to focus on the portion of the closing effort that is affected.

**Target Implementation Date:** 01/19/12

**Actual Implementation Date:** 01/19/12

Action for this finding was previously reported as implemented on August 17, 2011, but there had not been sufficient transactions to clear the item in the January, 2012 report.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** 283

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Pending

**Finding:** Key support, such as contracts and environmental clearance certifications, are often missing from the loan files when NSP forwards the files to legal. NSP Loan Closing Specialists attach a "Request for Preparation of Loan Documents and Closing Instructions" form to loan files provided to legal. The form provides general information on the files' contents. We compared the NSP form to the documentation that legal needs for homebuyer loan preparation. The form did not include many of the items needed by legal, including subgrantee contract information, indication of environmental clearance, and indication that the purchase discount was satisfied or waived.

NSP has been largely focused on productivity. High production appears to have an impact on the quality of work. The risk of error is heightened by the lack of mitigating controls such as formalized policies and procedures.

The responsibility for ensuring the accuracy of the information in the files lies with the NSP. If information in the loan file is not correct and the error is not caught by legal, inaccurate or incomplete homebuyer loans could be closed and funded, NSP money could fund non-compliant transactions, or NSP may unknowingly report incorrect information to HUD.

**Recommendation:** NSP should:

- enhance quality assurance reviews on the front end of the homebuyer loan closing process to ensure that issues are caught and corrected before files are sent to legal, and
- amend the "Request for Preparation of Loan Document and Closing Instructions" form to include a comments section and checkboxes to indicate the file includes all of the items required by legal in order to prepare homebuyer loan documents.

**Management Response:** Management concurs. Management will ensure the standardization of documentation to be reviewed by Legal Services and existing checklists will be reevaluated and revised in coordination with Legal Services to ensure that files are complete for each transaction. The clarifications now being finalized will clearly delineate the documents that will be required (to enable subgrantees to gather them), the review to be performed by Legal Services, and the programmatic reviews that will be performed by NSP and/or Program Services.

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** N/A

NSP is continuing to actively participate in the realignment of TDHCA Single Family activities. Part of that process will be creation of a clear, consistent process and standard for submission of information to

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

the Legal Services Division.

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** 430



# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** Although not required by HUD, the Department's NOFA set a minimum NSP contract amount of \$500,000 plus \$25,000 in administration fees for a total contract of \$525,000. However, of the 48 randomly selected contract files tested, one original contract was written for less than \$525,000. The NSP NOFA states that "In order to avoid allocating small amounts of funding that can have no meaningful impact on stabilizing of property values, the minimum award amount to an eligible entity cannot be less than \$500,000, excluding administration cost."

Although the Texas Administrative Code for NSP allows the Department to issue a waiver of certain contract terms required in the 2009 NSP NOFA, the stricter requirements of the NOFA may have deterred potential subgrantees from applying for grant funds and could have resulted in fewer areas served by the NSP.

**Recommendation:** The Department should abide by the NOFA to ensure the subgrantees understand the Department's intent and that all subgrantees are offered an equal opportunity to participate under the same set of rules.

**Management Response:** Management concurs and will ensure that any future subgrantee abides by the requirements of the applicable NOFA.

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** 01/19/12

The NSP1 NOFA, which included the \$525,000 minimum award, is no longer valid, and no further awards will be made under that authority. The current NSP1-PI NOFA, which allows access to the NSP Reservation System, does not include a minimum award amount.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Pending

**Finding:** NSP does not have an established mechanism in place to track key elements of the program including contract milestone thresholds, cumulative budget transfer amounts, and homebuyer loan files.

Although the NSP Technical Guide states that the Department will evaluate compliance with contractual obligations to ensure progress toward meeting benchmarks. NSP is not consistently tracking the subgrantee's milestones. Subgrantees are not always meeting their milestones. HUD requires grantees to obligate and expend funds in an expeditious manner and HUD has imposed a deadline for expending grant funds. In one instance, the subgrantee should have expended 30% (\$600,000) of its demolition obligation by May 31, 2010 and 30% (\$153,397) of its purchase and rehabilitation obligation by August 31, 2010. As of January 10, 2011, all the contract activities entered into the Housing Contract System for this subgrantee are still in pending status. The subgrantee has not drawn any funds to support meeting the 30% expended funds. This is significant because if the NSP fails to expend the grant funds within the established timelines, the funds will be recaptured by HUD, the subgrantees' geographic area will not be served, and the Department may not achieve the program objectives. NSP is also not formally tracking incremental budget transfers. The NSP contract with subgrantees indicates that there is a 10% budget transfer ceiling. Transfers above 10% require an amendment or written authorization from the Department. Transfers above 25% require approval of the Department's governing board. When the cumulative amount of budget transfers is not monitored, program specialists and management may not identify incremental budget transfers that exceed the allowable limits and may neglect to obtain the appropriate level of approval.

There is no centralized mechanism to track the progression of homebuyer loans through the inter-divisional, multi-step closing process.

NSP does not have a system or report that captures the entire population of NSP transactions. No single resource can be used to determine the status of the program or to review complete information about a specific transaction.

If NSP does not sufficiently monitor these key elements, there is an increased risk that the program may not stay on track and that the program objectives will not be completely achieved. Missed milestones could result in the loss of funding. Budget transfers could exceed the 10% ceiling, which may prevent the amendment from receiving approval as required. Homebuyer loan files could fall through the crack and result in delayed closings or unnecessary re-work.

**Recommendation:** NSP should:

- establish a system for tracking key program elements,
- ensure grant funds are expended within the program guidelines and within the program timeframe, and
- monitor contract milestone thresholds, cumulative budget transfer amounts, and the status of homebuyer loan files

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Management Response:** Management concurs. Management will establish a system for tracking key program elements and formally incorporate the procedures into an SOP by May 31, 2011 in order to better track subrecipient performance and compliance.

Management will prepare a budget transfer reconciliation report for the May 2011 TDHCA Board meeting and request, if necessary, authorization for any already identified transfers at that meeting and will establish a more uniform process to manage cumulative budget transfers by May 31, 2011.

**Status:** Management has not yet reported this recommendation as implemented.

**Target Implementation Date:** 01/03/12

**Actual Implementation Date:** N/A

**Recommendation Age (in days):** 430

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** NSP does not have detailed policies and procedures. The limited number of written policies and procedures NSP does have are all in draft form and have not been formally communicated to staff including SOPs for contract amendment requests, draw requests, set-up requests, contract administration, mortgage loan financing, home buyer assistance loans, and obtaining credit reports.

Without finalizing and formally communicating policies and procedures to the NSP staff, staff may not be performing their job duties as intended by management. NSP management's finalization of the policies are necessary to ensure that all program specialists are performing their duties in accordance with standardized instructions, that program specialists perform their duties consistently and effectively, and that risks are mitigated.

**Recommendation:** NSP management should finalize, communicate, and monitor compliance with the program's written policies and procedures.

**Management Response:** Management concurs. Management will reevaluate the four existing draft SOPs, edit or create new SOPs as appropriate and finalize and communicate the SOPs to staff by May 30, 2011. Management will provide training on the SOPs for staff once they have been finalized. Management will establish a process for periodic sampling and testing to ensure compliance with written policies and procedures by August 31, 2011.

**Target Implementation Date:** 01/31/12

**Actual Implementation Date:** 01/18/12

The NSP SOPs were finalized on August 17, 2011.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Pending

**Finding:** The Department may not be reporting accurate information to HUD. There were discrepancies in the total budgeted amounts recorded in the Department's Housing Contract System and the budgeted amounts recorded in the DRGR system. Of the 52 contracts that we compared in both the DRGR and Housing Contract System, differences were noted in 26 contracts (50.0%). Four contracts had differences of \$1 million or more. One contract differed by more than \$5 million. Two contracts were entered into the DRGR system but were not in the Housing Contract System and one contract was entered into the Housing Contract System but was not in DRGR. Overall, there was a total difference of \$2,313,071 more in the DRGR system than in the Housing Contract System.

HUD requires each grantee to report on its NSP funds using the DRGR system. HUD uses grantee reports to monitor for anomalies or performance problems that suggest fraud, waste, and abuse of funds and to reconcile budgets, obligations, fund draws and expenditures.

A reconciliation of the data in the DRGR system, the Housing Contract System, and the contract file does not occur on a regular basis. Only two reconciliations were performed as of November 25, 2010. Both were performed in connection with an external audit by HUD. However, in both of these reconciliations, the data was not reconciled in aggregate at the program level, only at the individual contract level. Without regular reconciliations, contract information in the Department's Housing Contract System will not be consistent with HUD's DRGR system or with the hard copy files.

The program manager is responsible for submitting program reports to HUD using the DRGR system. The program manager is also responsible for entering contract budget corrections into both DRGR and the Department's Housing Contract System. Ideally, these functions should be separated. When one person has the ability to enter data into the Housing Contract System and DRGR, there is a higher risk that data entry errors go undetected. Regular and routine reconciliations should identify data entry errors.

Lack of regular reconciliations may prevent management from having accurate performance information available for decision-making and for reporting to HUD. A regular reconciliation process ensures that data is accurate and that unauthorized changes have not occurred.

**Recommendation:** NSP should perform regular and routine reconciliations between the data in the Housing Contract System, the data in the DRGR system and the hard copy files. At a minimum, these reconciliations should include:

- reviewing source documents,
- verifying the accuracy and recording of the transactions in the Housing Contract System,
- identifying and resolving any discrepancies in a timely manner,

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

- documenting the performance of reconciliations,
- reviewing the reconciliations to ensure they are performed and any discrepancies are resolved, and
- ensuring the individual performing the reconciliation does not also enter data into either of the data systems being reconciled or have the ability to process transactions.

**Management Response:** Management concurs. Program Services staff is currently in the process of reconciling the contract system with DRGR, and the responsibility for completing HUD reporting from the DRGR system is being assigned to a staff member in Program Services. A full reconciliation is anticipated to be complete by April 30, 2011. Management will review existing draft SOPs to edit or create a new SOP to ensure that a process exists for the two systems to be reconciled on a monthly basis thereafter; associated SOPs will be finalized by May 30, 2011.

**Target Implementation Date:** 03/31/12

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** 430

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** The contract status in the Housing Contract System does not always reflect the actual status of the contract. We randomly selected a sample of 48 NSP contracts for testing purposes. The status of 18 of the 48 (37.5%) contracts reviewed in the Housing Contract System (and using the hard copy contract files) was inaccurate. The status should be classified as "pending", "active", "closed", or "terminated for cause" depending on the situation.

We found that of the 18 inaccurately classified contracts:

- Ten contracts expired on November 30, 2010. According to NSP management, amendments are in process. These contracts should be classified as "pending amendment" or "inactive" but were still labeled "active".
- Four files were labeled as "closed" but there was no formal documentation scanned in the Housing Contract System to support closing the project.
- Two files were labeled "terminated for cause" but should be "closed".
- One file labeled "active" should be "closed".
- One contract was not yet entered into the Housing Contract System; therefore no status was available.

The status in the Housing Contract System should agree to the actual status of the contract. When triggering events such as contract expiration or contract termination occur, the status in the Housing Contract System should be revised and the correct classification should be used. Documentation supporting the triggering event should also be entered into the Housing Contract System.

NSP staff does not always update the Housing Contract System when triggering events occurred such as contract expiration or voluntary termination. As a result, program managers who use the data in the contract file and the Housing Contract System for decision-making may not be relying on the correct data.

**Recommendation:** NSP should ensure that the contract status in the Housing Contract System accurately reflects the status of the contract.

**Management Response:** Management concurs. Management will review and amend existing draft SOPs regarding contract status in the Housing Contract System to ensure that a clear procedure exists for timely and accurate updates to HCS and implement a monthly review as part of the monthly reconciliation process discussed as part of response to recommendation 2A.

**Target Implementation Date:** 01/17/12

**Actual Implementation Date:** 04/17/12

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

The NSP Setups and Draws SOP was amended to include verification of contract status prior to approval of draws and activity setups. The amended SOP was effective 3/20/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A



# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** Data in the Housing Contract System is often unavailable. Documents supporting the contract setups and draws, and the actual amendments themselves were not always present in the Housing Contract System. For instance, imaged documents for the budget amendments was not available in the Housing Contract System for 17 of 28 (60.7%) sub-recipient contracts reviewed. As a result, accounting and other program personnel periodically have to track down documentation supporting executed amendments on a case-by-case basis.

Supporting documentation for setups was not available in the Housing Contract System. Examples of setup documents that were unavailable include:

- 26 of 48 files (54.2%) did not include evidence of review, (of these 26 files, 21 were TDRA files), and
- 5 of 48 files (10.4%) did not include contract termination documents, although the contracts were (or should have been) terminated.

The draft NSP procedures require that supporting documentation be entered into the Housing Contract System. Expecting program staff and other Department staff to track down documentation that should be available in the Housing contract System is time consuming and inefficient. As a result, users of the Housing Contract System may rely on incorrect data because the information in the system is incomplete or unavailable.

**Recommendation:** NSP should:

- ensure that all supporting documentation is submitted by both the Department and TDRA and available in the Housing Contract System, and
- finalize, communicate, and enforce the procedures that require supporting documentation to be entered into the Housing Contract System.

**Management Response:** Management concurs. Management will review and edit existing SOPs or create new SOPs to ensure that all required supporting documentation is submitted and available in the Housing Contract System. All checklists will be reviewed and edited, as necessary, to facilitate the process and provide clear understanding of the required documentation. Associated SOPs and checklists will be finalized and communicated to staff and subgrantees by May 31, 2011.

**Target Implementation Date:** 01/31/12

**Actual Implementation Date:** 03/20/12

Management will establish a process for periodic sampling and testing of the Housing Contract System by August 31, 2011 to ensure that all required supporting documentation is present.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** NSP does not maintain a listing, outside of the Housing Contract System, of the addresses and/or household names that were used to obligate the NSP funds by the September 3, 2010, deadline for obligations. NSP relies on the information in the Housing Contract System to record obligations. However, the Housing Contract System is constantly in flux and does not maintain a complete historical record of information. Therefore, we were unable to determine accurately the original population of awards obligated by the September 3, 2010, deadline. Because we could not determine the obligation population, we could not confirm compliance with the HUD requirements.

The Housing and Recovery Act of 2008 requires grantees to use NSP funds within 18 months of when HUD signed its NSP grant agreement. For the Department, the 18-month period ended September 3, 2010. Funds are considered used when they are obligated by a grantee. HUD requirements include ensuring each obligation can be linked to a specific address. The obligation of each eligible use must be further evidenced by a specific event. For example, acquisition and landbank costs are considered obligated when the seller has accepted the purchase offer. Demolition costs can be reported as obligated when the subrecipient awards a demolition contract. A subrecipient's rehabilitation costs can be recorded as obligated when a construction contract is awarded for a specific property. To test the evidence of obligation, the population of obligations must first be identified. Because a listing of addresses and/or household names was not maintained outside of the Housing Contract System, the population of obligations could not be easily determined.

**Recommendation:** NSP should ensure that the Department has documentation in place to support the obligation information reported to HUD.

**Management Response:** Management concurs. Management has charged Program Services with the responsibility for re-evaluating and reconciling documentation provided to recertify the obligations made as of the obligation deadline by April 30, 2011.

**Target Implementation Date:** 03/01/12

**Actual Implementation Date:** 04/15/12

NSP staff has extracted copies of all obligation documents from the Housing Contract System, and saved them to an accessible network file. A summary spreadsheet describing the obligation documents and amounts is also in the file.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 04/08/2011

**Current Status:** Implemented – Not Verified

**Finding:** The checklists used by NSP staff to process draw requests do not have enough detail to guide NSP staff on how to process these draws. There is not a checklist for every draw type, staff do not always use the checklists consistently, and the checklists are not always signed by staff. Use of NSPs draw request checklists could be improved to ensure they provide clear and detailed guidance to NSP team members. NSP developed checklists to guide subgrantees in submitting their draw requests and to serve as a reference for NSP staff as they process draws. The checklists are supposed to cite the required supporting documentation and list any verifications the NSP staff must make prior to approving a draw. The draw request checklists do not outline the specific items that NSP staff should verify within the supporting documents. The checklists also do not reference the requirements or criteria against which the requests and support should be reviewed. NSP needs a checklist for every draw type. NSP has four checklists in place to handle six types of draws. As a result, subgrantees and NSP staff do not have clear guidance as to what documents and benchmarks are required.

NSP and TDRA staff should complete the draw checklists consistently. Of the 77 judgmentally selected draws tested, 40 (51.9%) did not have completed checklists, and 16 (20.8%) checklists were not signed by the program specialist. The draft NSP procedure related to draws states that if the electronic setup is acceptable, then the program specialist will complete the draw request checklist. Without the signature of the program specialist affirming their review of the supporting documentation for the draw, NSP may be unable to determine if the supporting documentation was reviewed for accuracy and allowability prior to the approval of the draw by the program specialist. The use of checklists continually reminds staff of the job requirements. It is a systematic way to make sure the activities are completed correctly and provides written documentation to support this assertion.

**Recommendation:** NSP should improve the use of draw checklists by:

- modifying checklists to accurately document the draw requirements,
- developing comprehensive checklists for all draw types, and
- ensuring that all draw checklists are completed correctly.

**Management Response:** Management concurs. Management will re-evaluate and edit checklists as necessary to be specific for each of the following draw types: Administrative, Activity Delivery, Closing and Construction Draws.

**Target Implementation Date:** 01/23/12

**Actual Implementation Date:** 01/23/12

The revised checklists will be implemented by March 31, 2011, and staff will continue to provide training and technical assistance to subgrantees in person and via webinar.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** A Follow-up Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 01/31/2012

**Current Status:** Implemented – Not Verified

**Finding:** NSP loan files do not always include title insurance policies, which indicate that the subrecipient has clear title to the property. Of 161 properties reviewed, documentation of a title insurance policy was not available in the electronic or hard copy file for nine (5.6%) of the properties. Because NSP does not have documentation of the title insurance policy for these properties, the Department does not have assurance that the title to the property was clear when acquired by the subrecipient.

The title is the collective ownership records of a piece of property. A clear line of title makes the property owner less vulnerable to ownership claims from other parties and to any outstanding debts of the previous property owners. Title insurance policies protect the property buyer against losses arising from problems with the property title that are unknown when the property is purchased. The title insurance policy will indicate whether all liens against the property have been satisfied.

**Recommendation:** NSP should obtain and maintain a copy of the property's title insurance policy and ensure the policy indicates that any outstanding debts against the property have been satisfied.

**Management Response:** The NSP Loan Processing SOP was amended on 3/20/12 to add tracking and review for receipt of Title Policies.

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** 03/20/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** A Follow-up Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 01/31/2012

**Current Status:** Implemented – Not Verified

**Finding:** The loan repayment date listed in the general agreement between the Department and the subrecipient does not always agree with the loan documentation for a specific property or group of properties. For example, a promissory note stated that the subrecipient's loan repayment date was August 31, 2011, while the amended NSP agreement indicated that the subrecipient's loan repayment date was July 1, 2012 - almost one year later. As a result, the subrecipient appears to be delinquent in the Department's Loan Servicing System, although their NSP agreement was extended. If the subrecipient appears delinquent in their repayment to the Department it could impact their other funding opportunities with the Department.

**Recommendation:** NSP should ensure that the property loan documents are consistent with the NSP agreement between the Department and the subrecipient.

**Management Response:** The NSP Contract Amendment SOP has been amended to add review of loan documents for potential impact of the Contract Amendment as part of the documentation maintenance process

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** 03/20/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** A Follow-up Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 01/31/2012

**Current Status:** Implemented – Not Verified

**Finding:** NSP did not always obtain documentation that the deed to a property was properly recorded. We tested files related to 161 NSP properties. Documentation demonstrating the property deed was recorded was not available for twenty-one (13.0%) of 161 properties reviewed. Failing to record the deed increases the risk that someone else may have a higher priority claim to the property.

A deed should be recorded in the appropriate county to indicate that ownership has been transferred from the grantor to the grantee. Although the Texas Property Code does not require that a property deed be recorded, recording a property deed publicly indicates who owns the property. The first person who records the deed, (as evidenced by the stamp on the deed and filing at the county's property records office), and does not have notice of any other deeds relating to the property, holds legal title to the property.

**Recommendation:** NSP should obtain and maintain documentation indicating that the deed to each property has been properly recorded and that the subrecipient is listed on the recorded deed as the grantee.

**Management Response:** The NSP Loan Processing SOP was amended on March 20, 2012, to include tracking and review for copies of recorded Warranty Deeds. A request was made to Legal Services on March 16, 2012 to add a requirement to closing instructions that copies of the recorded Warranty Deeds be required as part of the documents to be returned to TDHCA.

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** 03/20/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** A Follow-up Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 01/31/2012

**Current Status:** Implemented – Not Verified

**Finding:** NSP is not providing timely information to HUD as required. HUD requires NSP to report program performance to HUD on a quarterly basis using HUD's DRGR system. The reports contain both current and historical information and are due to HUD no later than thirty days after the completion of the quarter. The most recent report submitted to HUD was for the fourth quarter of 2010. Accurate performance information is critical to stakeholders who use it for decision-making purposes. HUD requires regular reporting to ensure it receives sufficient management information to follow up promptly if a grantee lags in implementation and is at risk of recapture of grant funds. HUD also uses these reports to determine compliance with federal regulations and to identify and prevent fraud, waste and abuse.

**Recommendation:** NSP should provide HUD with required information on a timely basis and continue to submit past due reports.

**Management Response:** The 1st Quarter 2012 QPR was submitted to HUD in advance of the April 30, 2012 due date, on April 26, 2012

**Target Implementation Date:** 04/30/12

**Actual Implementation Date:** 04/26/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** A Follow-up Audit of the Neighborhood Stabilization Program

**Division:** Neighborhood Stabilization Program

**Report Date:** 01/31/2012

**Current Status:** Implemented – Not Verified

**Finding:** Section 3 of the Housing and Urban Development Act of 1968 requires the Department and its subgrantees to give priority consideration in awarding jobs, training and contracting opportunities to low- and very-low income persons who live in the community in which the funds are spent. HUD requires that grant recipients report cumulative Section 3 activities within their jurisdiction on an annual basis. The Department collects Section 3 data from the subrecipients using the Subrecipient Activity Reports and then reports the Section 3 data to HUD annually as required. However, NSP does not verify the accuracy of the data reported by its subrecipients.

**Recommendation:** NSP should verify the Section 3 data reported by the subrecipients.

**Management Response:** The Monitoring and Compliance Division is including Section 3 for current quarter risk assessment and monitoring.

**Target Implementation Date:** 02/29/12

**Actual Implementation Date:** 04/09/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A



# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Tax Credit Exchange Program

**Division:** Tax Credit Exchange Program

**Report Date:** 08/04/2011

**Status:** Implemented – Not Verified

**Finding:** We tested 38 approved Exchange draws and identified \$3,616.88 in reimbursed expenses for donations, late charges, gifts, food, and party supplies. While these are not ineligible costs under the Exchange grant agreement, they do not appear in line with the overall directive of the Program to finance the construction, acquisition, and rehabilitation of qualified low-income housing projects. TDHCA did not develop strict criteria for the use of Exchange funds. As a result, Exchange funds awarded through TDHCA may not support the overall mission of the program.

**Recommendation:** For future programs, TDHCA should set more restrictions on expense types to ensure all funds are used in clear support of the program mission.

**Management Response:** Staff is committed to ensuring that future programs define parameters for the types of expenses that will be reimbursed to ensure that a program's intent and actual funds disbursed align. Other federal programs currently utilized for multifamily development have strict requirements with regard to cost eligibility and this is therefore not an issue with these other programs administered.

**Target Implementation Date:** 9/30/11

**Actual Implementation Date:** 04/03/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Tax Credit Exchange Program

**Division:** Tax Credit Exchange Program

**Report Date:** 08/04/2011

**Status:** Implemented – Not Verified

**Finding:** The Exchange program uses a draw process for payment. Developers submit documents to the Department that support expenditures for costs related to their Exchange developments. The contracts between the Department and the developers limit reimbursement to incurred costs. We reviewed a systemic and judgmental sample of 38 Exchange draws and found two (5.3%) that included a total of \$111,521 in estimated interest and anticipated costs.

**Recommendation:** The Department should:

- ensure that all draws are paid only for costs that have already been incurred, and
- identify and implement restrictions on expense types for future programs to ensure that all program funds are spent on activities that clearly support the mission of the program.

**Management Response:** Management acknowledges the two items identified as unincurred. Management has required the developer to pre-pay the estimated interest expense of \$105,104 and provide proof of such payment. Management determined that the invoice for management services of \$6,376 was a justifiable expense given that the fees were for a defined service and scope of work. Given the nature of the specific development, Management would agree with the billing of services in advance as it is a common practice for assistance with troubled deals, difficult transactions or in transactions with new or inexperienced developers.

**Target Implementation Date:** 09/30/11

**Actual Implementation Date:** 4/03/12

Items such as late fees, small token gifts, food and party supplies (for Ground Breaking and Grand Opening Events) are not prohibited by the Exchange program or the Tax Credit program; management looks for the reasonableness of the expense to ensure the items are justifiable development related expenses. Clarification and additional guidance has been provided to staff and implemented. Such guidance is communicated to the developers as needed to ensure all items within a draw request are for items that have been incurred or expended. Additional clarification and guidance on acceptable expense items will be provided to the development community via the Exchange website by August 31, 2011.

All Exchange funded developments have now completed construction and the Department is no longer disbursing funds. It should be noted, however, that staff is currently reviewing and evaluating all cost certification packages submitted for Exchange transactions. Each cost certification must include a CPA evaluation of the development costs and a determination with regard to eligible basis incurred for the

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

property. The cost certification also includes all sources of funds and must reconcile with the actual CPA certified development costs incurred. Staff reviews the cost certification to ensure that the eligible basis is sufficient to support the amount of funds disbursed. This "back-end" review and reconciliation should provide resolution to any potential issues of cost eligibility. If eligible basis is not sufficient to support the amount of funds drawn, repayment of the excess or unsupported amount will be required.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Tax Credit Exchange Program

**Division:** Tax Credit Exchange Program

**Report Date:** 08/04/2011

**Current Status:** Implemented – Not Verified

**Finding:** The Treasury requires the Department to maintain program, financial, and accounting records sufficient to demonstrate that Exchange funds are used in accordance with program requirements. We tested a sample of 38 approved draws totaling \$43,115,053 and identified 12 draws (31.6% of the 38 draws tested) that included inadequate support for all or a portion of the drawn expenses. Inadequately supported amounts within each of these draws totaled \$4,240,288 (9.8% of the total amount tested).

The Department has not outlined the requirements for the documentation submitted to support draw requests. As a result, Exchange properties are submitting, and the Department is approving, draw requests lacking key information. Supporting draw documentation maintained by the Department may not provide sufficient assurance that grant funds were disbursed in accordance with the program requirements.

**Recommendation:** The Department should:

- ensure that all draws are adequately supported,
- clarify the documents required to support draw requests, and provide this information to Exchange developers and to Department staff responsible for reviewing and approving draws.

**Management Response:** Management acknowledges that there were some instances of inadequate documentation or documentation that could have been clearer. Clarification and additional guidance has been provided to staff and implemented. Such guidance has been communicated to the developers as needed to ensure all back up documentation is consistent and clear to anyone reviewing the draws.

**Target Implementation Date:** 09/30/11

**Actual Implementation Date:** 4/03/12

Additional guidance will be provided to the development community as a whole via the Exchange website by August 31, 2011.

All Exchange funded developments have now completed construction and the Department is no longer disbursing funds. It should be noted, however, that staff is currently reviewing and evaluating all cost certification packages submitted for Exchange transactions. Each cost certification must include a CPA evaluation of the development costs and a determination with regard to eligible basis incurred for the property. The cost certification also includes all sources of funds and must reconcile with the actual CPA certified development costs incurred. Staff reviews the cost certification to ensure that the eligible basis is

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

sufficient to support the amount of funds disbursed. This "back-end" review and reconciliation should provide resolution to any potential issues of inadequate documentation.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Audit of Contracting for Services

**Division:** Purchasing/Financial Administration

**Report Date:** 01/20/2012

**Current Status:** Implemented – Not Verified

**Finding:** Although these did not affect the outcome of the contract award, control weaknesses allowed the following to occur:

- There was one (20.0%) contract tested where the score sheets were incorrectly calculated
- There was one contract that had an instance where a current TDHCA employee was consulted prior to the scoring for a bid that was for a company that she had worked for prior to joining TDHCA. Her employment with them had ended only months prior. In addition, her husband had also been employed by the same bidding company.
- There was one (20.0%) contract where there were three evaluators and one of the evaluators removed himself from scoring two of the proposals due to a conflict with having trained the bidders staff. Therefore, for those two bidders, they each received an average score based on only two of the evaluators instead of on three.
- There was one (20.0%) contract where one of the evaluators did not score one of the bids and there was no documentation for the deviation.
- There was one (20.0%) contract where there were five evaluators for the first round of scoring but only four for the second round of scoring. The scores for one of the evaluators was not used in the final calculation for determining the total award.
- There was no documentation to explain this.
- There were two (40.0%) contracts where the scoring matrix was not in-line with the evaluation criteria defined in the RFP. There was no documentation for this deviation.

**Recommendation:** The Division should implement policies and procedures for the scoring and award processes. At a minimum, the policies and procedures should address the following:

- selection of the contract reviewer team,
- conflicts of interest between the evaluators and the respondents to the solicitation for bid,
- documentation of any deviations from the review and scoring processes, and
- a final review process for all materials used in the review and scoring processes.

**Management Response:** Historically Purchasing has customarily distanced itself from the Review Team. As part of the procurement process Purchasing has been dedicated to making sure that every aspect from the specification and information gathering to the receipt of bids and proposals has been precisely followed in accordance with procurement rules and regulations. The distance from the review of submissions was to not create a conflict of interest in the process of the review.

**Target Implementation Date:** 03/01/12

**Actual Implementation Date:** 04/05/12

Management acknowledges the recommendations and will prepare a checklist for Review Team leaders to have prior to the review and a checklist for turning in all scoring sheets and recommendations for award to Purchasing. We will also have a generic matrix boilerplate that can be changed to accommodate any and

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

all types of procurements. Review Team checklists and a boilerplate matrix will be implemented by March 1, 2012 and is the responsibility of the Manager for Purchasing and Staff Services.

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Audit of Website Management

**Division:** Information Systems Division

**Report Date:** 03/07/2012

**Current Status:** Implemented – Not Verified

**Finding:** The Information Systems Division Standard Operating Procedure # 1264.05 does not indicate that it is the web liaison's responsibility to review the website updates once they are implemented and to inform the web developer if the update is not complete or correct.

**Recommendation:** The Information Systems Division should revise its procedures for updating the Department's website to ensure that it communicates to the web liaisons that it is their responsibility to ensure the updates are accurate and complete, and to notify the web developer if changes need to be made.

**Management Response:** Management agrees with the recommended revisions to the website update procedures and will complete the revisions in March.

**Target Implementation Date:** 03/31/12

The revised SOP was approved on April 5.

**Actual Implementation Date:** 04/17/12

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A



# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** HUD On-Site Monitoring of Homelessness Prevention and Rapid Re-Housing Program **Division:** Community Affairs Division

**Report Date:** 08/16/2011

**Current Status:** Pending

**Finding:** Of the 9 recipients that were monitored, only five monitored letters had been completed and mailed to the subrecipients. The first three monitoring visits exceeded the 45 day deadline by an average of 71 days. Subsequent monitoring letters took approximately 2 additional weeks to be finalized.

*(Note: This issue was listed as a concern in the HUD monitoring report. However, Community Services - CSBG had a prior audit finding (PAI #44) from 6/11/2008 that also identified monitoring reports being submitted late. Due to the new concern from the HUD report we closed PAI #44 and elevated HUD's concern to a finding which will be tracked and followed up on by Internal Audit.)*

**Recommendation:** Management should review its standard and if necessary make adjustments to the monitoring review time.

**Management Response:** Management has reviewed the 45-day response period and remains committed to the timely release of monitoring reports. The implementation of a new program, combined with new regulations, as well as new staff members contributed to the delays in issuing reports within 45 days. Management will continue to assess the timeline and make adjustments to the 45 day period if staff is unable to meet the 45 day deadline.

**Target Implementation Date:** 10/31/11

**Actual Implementation Date:** N/A

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** 227

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** DOE Monitoring of the Weatherization Assistance Program

**Division:** Information Systems Division

**Report Date:** 11/14/2011

**Current Status:** Pending

**Finding:** The Subgrantee's contractor failed to remove an unvented space heater in the bathroom, in violation of WPN 08-4, WPN 11-6, and the Texas Mechanical Field Guide.

**Recommendation:** The Grantee should instruct the subgrantee agency to have the contractor return, remove the unvented space heater from the home and dispose of it properly.

**Management Response:** In a November 21, 2011 monitoring report to Brazos Valley Community Action Agency, TDHCA required BVCCA to "Remove the old disconnected space heaters from home and seal subsequent hole in wall. This is to prevent the client from possibly re-connecting the UVSH and ensures compliance with WPN 08-4." The response to the report is due from BVCAA on or before December 21, 2011. TDHCA will provide follow-up to DOE once the Subrecipient's response is received. TDHCA has already provided technical assistance to the subgrantee to assist them in handling this type of situation in the future.

**Target Implementation Date:** 03/20/12

**Actual Implementation Date:** N/A

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** 216