

AUDIT COMMITTEE MEETING

MAY 8, 2014



Leslie Bingham-Escareño, **Chair**
Tom H. Gann, Member
J. Mark McWatters, Member
Sandy Donoho, Secretary of the Committee

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

AGENDA

8:00 a.m.
May 8, 2014

John H. Reagan Building
Room JHR 140, 105 W 15th Street,
Austin, Texas

CALL TO ORDER, ROLL CALL

Leslie Bingham-Escareño, Chair

CERTIFICATION OF QUORUM

Leslie Bingham-Escareño, Chair

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

ACTION ITEMS

- Item 1 Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for January 23, 2014
- Item 2 Presentation and Discussion on the Status of the FY 2014 Internal Audit Work Plan
- Item 3 Presentation and Discussion of Recent Internal Audit Reports:
 - a) An Internal Audit of the Low Income Housing Energy Assistance Program
 - b) An Internal Audit of the Amy Young Barrier Removal Program
- Item 4 Presentation and Discussion of the Status of External Audits
- Item 5 Presentation and Discussion of Recent External Audit Reports:
 - a) Statewide Audit of Federal Funds
- Item 6 Presentation and Discussion of the Status of Prior Audit Issues
- Item 7 Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints

Sandy Donoho,
Director of Internal
Audit

EXECUTIVE SESSION

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.

1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to

Leslie Bingham-
Escareño, Chair

receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Board 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 or contact Sandy Donoho, 512-475-3813, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, 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 three (3) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Jorge Reyes, 512-475-4577 at least three (3) 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.

ACTION ITEMS

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AUDIT COMMITTEE ACTION REQUEST

BOARD SECRETARY

MAY 08, 2014

Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes Summary for January 23, 2014.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for January 23, 2014 are hereby approved as presented.

AUDIT COMMITTEE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

8:30 a.m.
January 23, 2014
John H. Reagan Building
Room JHR 140, 105 W 15th Street,
Austin, Texas

CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs was called to order by Chair, Leslie Bingham-Escareño at 8:30 a.m. on January 23, 2014. It was held at the John H. Reagan Building, Room JHR 140, 105 W. 15th Street, Austin, TX. Roll call certified a quorum was present.

Members Present:

Leslie Bingham-Escareño, Chair
J. Mark McWatters, Member
Tom Gann, Member

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

ACTION ITEMS

- Item 1 Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for September 12, 2013
Motion by Tom Gann to approve the Audit Committee Minutes for September 12, 2013; duly seconded by J. Mark McWatters; motion passed.

- Item 2 Presentation, Discussion and Possible Action on Acceptance of the 2013 Audit Results from the State Auditor's Office.
Motion by Tom Gann to accept the 2013 Audit Results from the State Auditor's Office ; duly seconded by J. Mark McWatters; motion passed.

- Item 3 Presentation, Discussion, and Possible Action on the 2014 Internal Audit Charter and Board Resolution No. 14-012.
Motion by Tom Gann to approve the 2013 Internal Audit Charter and Board Resolution No. 14-012; duly seconded by J. Mark McWatters; motion passed.

- Item 4 Presentation and Discussion on the Status of the FY 2014 Internal Audit Work Plan
Report only. No action required.

- Item 5 Presentation and Discussion of Recent Internal Audit Reports
Report only. No action required.

- Item 6 Presentation and Discussion of the Status of External Audits
Report only. No action required.

- Item 7 Presentation and Discussion of the Status of Prior Audit Issues
Report only. No action required.

- Item 8 Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints
Report only. No action required.

EXECUTIVE SESSION

No executive session was held.

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.

Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

1. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
2. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
3. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.

No public comment was received.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Board may not take any actions in Executive Session.

ADJOURN

Motion by J. Mark McWatters to adjourn; duly seconded by Tom Gann, motion passed unanimously. Since there was no other business to come before the board, Chair Bingham-Escareño adjourned at 9:00 a.m. on January 23, 2014.

Sandy Donoho, Board Secretary

For a full transcript of this meeting, please visit the TDHCA website at www.tdhca.state.tx.us

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

Presentation and Discussion of the Status of the Fiscal Year 2014 Internal Audit Work Plan.

REPORT ITEM

The Internal Audit Work Plan for Fiscal Year 2014 was approved by the audit committee and by the Board on September 13, 2013. This presentation outlines the current status of the plan.

BACKGROUND

There are six audits on the plan this year as well as one contingency audit. We have completed four of these audits and released the reports. We will discuss these internal audit reports under agenda item #5. We also completed two of the non-audit activities on the plan.

We are in the planning phase of the audit of the Financial Administration Division. We are currently conducting fieldwork on the audit of the Department's performance measures, which is our contingency audit. Our carry-over audit this year will be the audit of the HOME program.

**Department of Housing and Community Affairs
Internal Audit Division – Fiscal Year 2014 Internal Audit Plan
as of May 08, 2014**

Program Area/Division	Audit	Hours (4620)	Comments
Single Family	HOME Program	800	Scope Will Be Developed During Planning
Mfg. Housing	Titling Process	900	Completed
Community Affairs	Low Income Home Energy Assistance Program (LIHEAP)	900	Completed
Agency-wide	Ethics Program	180	Completed
Financial Administration	Financial Administration	800	Planning
Housing Trust Fund	Amy Young Barrier Removal Program	500	Completed
Agency-wide	Performance Measures ¹	540	Fieldwork
Program Area/Division	Management Assistance/ Special Projects	Hours (750)	Comments
Internal Audit	Quality Assurance Self-Assessment Review	120	Completed
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2015 Audit Plan	160	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Annual Review and Revision of Internal Audit Charter	20	Completed
Internal Audit	Preparation and Submission of the Fiscal Year 2014 Annual Internal Audit Report	40	Required by the Texas Internal Auditing Act, Due Each November
Internal Audit	Coordinate with External Auditors	60	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	100	Ongoing - Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	50	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 for Reviewing Fraud Complaints

¹ 10% of available hours are set aside for special requests from the board. If no such requests are received, this project will be performed using these hours.

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

Presentation and Discussion of Recent Internal Audit Reports.

REPORT ITEM

Internal Audit recently completed audits of the Low Income Home Energy Assistance Program (LIHEAP), and the Amy Young Barrier Removal Program. In addition, we recently completed an audit of the Manufactured Housing Division's titling process. Since the Manufactured Housing Division has a separate board, their board will be briefed on that audit report separately. These projects are part of the fiscal year 2014 audit plan.

BACKGROUND

An Internal Audit of the Low Income Home Energy Assistance Program (LIHEAP)

The Department generally ensures that grant funds from the Low Income Home Energy Assistance Program (LIHEAP) are spent as intended by federal, state and program rules. The Community Affairs Division has processes in place to track the performance of its subrecipients in using LIHEAP funds to provide services to eligible households. In addition, there are processes in place to track subrecipients' progress throughout the contract period, to reconcile their reported expenditures with the Department's accounting system and to reallocate funds as needed to ensure that as many households as possible are served.

We tested a judgmentally selected sample of 48 of the Department's administrative expenditures, which included 12 months of payroll reports and 36 non-payroll transactions, paid between January 1, 2011 and December 31, 2013 using LIHEAP funds. Although we did not identify any problems with the payroll costs allocated to LIHEAP, the basis for the allocation of other administrative expenditures to LIHEAP could not always be determined from the supporting documentation available.

Eleven (30.56%) of the 36 non-payroll transactions we tested did not indicate on the expenditure documentation how the allocation was determined and calculated. Without adequate documentation for a cost's allocation to LIHEAP funds, the degree to which the allocation is reasonable and allowable cannot be determined. The rationale for cost allocations should be noted on purchase requests or vouchers in order to document the reasonableness and allowableness of the cost. In addition, the Community Affairs Division should review LIHEAP expenditure reports on a regular basis in order to detect and correct errors promptly.

Management has indicated that they agree with our recommendations and are working to implement them.

An Internal Audit of the Amy Young Barrier Removal Program

We determined that overall the Amy Young Barrier Removal Program (program) is providing services as intended and in accordance with the Department's policies. We tested a judgmental sample of 30 activities from the activity set-up stage through the construction completion and draw request stage and did not identify any significant problems.

However, during testing of the activity set-up phase, we noted that both the first level and second-level review is performed by program staff and each staff has two separate log-ins in the Department's Housing Contract System so that all staff can act as both a first and second-level reviewer. This creates a risk that one individual could review a file and then approve their own work. We did not note any instances of this happening in the files we tested. The program should ensure that individuals who perform the first-level review of the activity set-ups are not also performing the second-level review of those same activity set-ups. Management has indicated that they agree with this recommendation and are working to implement it.

Executive Summary

The Texas Department of Housing and Community Affairs (Department) generally ensures that grant funds from the Low Income Home Energy Assistance Program (LIHEAP) are spent as intended by federal, state and program rules. The Department's Community Affairs Division which oversees LIHEAP has processes in place to track the performance of its subrecipients in using LIHEAP funds to provide services to eligible households. In addition, there are processes in place to track subrecipients' progress throughout the contract period, to reconcile subrecipients' reported expenditures with the Department's accounting system and to reallocate funds as needed to ensure that as many households as possible are served.

We tested a judgmentally selected sample of 48 of the Department's administrative expenditures, which included 12 months of payroll reports and 36 non-payroll transactions, paid between January 1, 2011 and December 31, 2013 using LIHEAP funds. Although we did not identify any problems with the payroll costs allocated to LIHEAP, the basis for the allocation of other administrative expenditures to LIHEAP could not always be determined from the supporting documentation available. Eleven (30.56%) of the 36 non-payroll transactions we tested did not indicate on the expenditure documentation how the allocation was determined and calculated. Without adequate documentation for a cost's allocation to LIHEAP funds, the degree to which the allocation is reasonable and allowable cannot be determined.

The LIHEAP funds are allocated to the Department's subrecipients according to a complex formula set out in the Texas Administrative Code. In program years 2011, 2012 and 2013, 50 subrecipients were allocated \$516.6¹ million through a total of 171 contracts. However, over the past three program years, 24 of the 50 subrecipients (48%) did not spend all of their contract funds. All 50 (100%) of the subrecipients were unable to expend at least one contract awarded to them between 2011 and 2013. In 2012, the most recent year for which the Community Affairs Division has completed their contract reconciliations, the Department redistributed \$49,293,721 in unspent LIHEAP funds through CEAP.

The Low-Income Home Energy Assistance Program (LIHEAP)

The Department administers the LIHEAP grant, which is provided by the U.S. Department of Health and Human Services (HHS). The Department uses a subrecipient network of 44 non-profit community action agencies, councils of government and local governments to administer the grant funds.

LIHEAP provides funds for two programs: the Comprehensive Energy Assistance Program (CEAP) and the Weatherization Assistance Program (WAP.) CEAP provides utility assistance to low-income households and WAP provides funds for weatherization-related home improvements and client education.

The Department's 2014 LIHEAP grant is \$128.7 million, of which 10% is reserved for the Department's and the subrecipients' administrative expenditures. The remaining allocation is budgeted as \$96.4 million for CEAP and \$27.1 million for WAP direct services.

¹ This amount includes funds re-allocated from each prior year.

Other Key Points

- Subrecipients are responding to life-threatening crises in accordance with federal, state, and program rules, but do not always document how they are identifying a life-threatening crisis. We visited two subrecipients and tested a judgmentally selected total sample of 137 files for CEAP clients that received crisis and utility assistance during calendar years 2012 and 2013. We found that all of these clients were eligible and we did not identify any ineligible utility payments. However, these subrecipients did not have definitions for a “life-threatening” crisis, nor policies to address these situations. The Department requires that subrecipients define “life-threatening” when considering household crisis factors and develop policies to address life-threatening situations.
- In addition, one of the subrecipients we visited did not have language in its vendor agreements regarding utility payments to vendors that bill for energy and other bundled services on a single bill and require payment for the entire bill in order to avoid disconnection. Eight (5.8%) of the 47 client files we reviewed at this subrecipient included CEAP payments for utility bills that included other costs such as sewer, water and garbage collection. The Department’s CEAP rules require documentation from a vendor when heating and cooling payments are inseparable from other billing items for payment purposes.
- The Community Affairs Division’s policies and procedures do not address the current processes for administering LIHEAP. The Division has not updated its policies and procedures since the monitoring function was moved from the Community Affairs Division to the Compliance Division in June 2012. The Division's procedures for administering LIHEAP contain responsibilities and positions that are no longer housed within the Community Affairs Division. Without current policies and procedures, the program’s responsibilities may not always be performed as management intends.

Summary of Recommendations

- The rationale for cost allocations should be noted on purchase requests or vouchers in order to document the reasonableness and allowableness of the cost.
- The Community Affairs Division should review LIHEAP expenditure reports on a regular basis in order to detect and correct errors promptly.
- Subrecipients should be provided guidance in defining "life-threatening" crises and developing written policies to address them.
- The Department should emphasize to CEAP subrecipients that they are required to obtain documentation from the utility provider when payments for energy costs are inseparable from payments for other utility costs.
- The Compliance Division should modify their monitoring instrument to include a review of the documentation from the utility provider indicating that payments for energy costs cannot be separated from payments for other utility costs.
- Policies and procedures should be updated to reflect the current roles and responsibilities of the Community Affairs Division staff.

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Detailed Results

Chapter 1

Document the Methodology Used to Allocate Non-Payroll Expenditures

The Texas Department of Housing and Community Affairs' (Department's) Low Income Home Energy Assistance Program grant (LIHEAP) provides not only funding to assist low-income homeowners with their utility bills and with making their homes more energy efficient, but also provides administrative funds to manage the program. The U.S. Department of Health and Human Services (HHS), which oversees the LIHEAP funding, allows up to 10% of the available LIHEAP funds to be used for program administration. The Department reserves 4% of this 10% for its own administrative costs, and the remaining 6% is reserved for subrecipients' administrative costs.

In fiscal year 2013, the LIHEAP grant was \$127,134,103, and of this, \$12,713,410 (10%) could be allocated for the Department's and the subrecipients' administrative expenditures. The Department retained \$4,146,798 (3.3%) of the allowable administrative funds and provided \$7,709,518 (6.1%) to the subrecipients.

However, the Department reportedly only spent \$1,073,888 (25.9%) of the administrative funds it retained; the rest of the Department's portion of these administrative funds was re-allocated to subrecipients in order to provide additional utility assistance to eligible households.

Federal Fiscal Year	Total HHS Allocation	Department's Administrative Funds Expended	Program Funds Expended
2011	\$ 184,201,437	\$ 1,046,437	\$ 183,155,000
2012	\$ 129,832,868	\$ 1,091,415	\$ 128,741,453
2013	\$ 127,134,103	\$ 1,073,888	Contract Closeout in Progress
2014	\$ 128,686,252	Current Year	Current Year

Source: Unaudited data from the Community Affairs Division's closeout spreadsheets.

The Department's LIHEAP administrative funds are generally allocated in accordance with federal, state and program rules. However, the basis for the allocation of some administrative expenditures to LIHEAP could not always be determined from the available supporting documentation.

We tested a judgmentally selected sample of 48 of the Department's administrative expenditures paid between January 1, 2011 and December 31, 2013 using LIHEAP funds. The 48 administrative expenditure items we tested represent \$470,618.70 in LIHEAP funds. Twelve of the 48 administrative expenditure items were for monthly payroll reports and these were adequately supported. However, 11 of the remaining 36 non-payroll items (30.6%) did not indicate on the expenditure documentation how the allocation was determined and calculated. These transactions included purchases, travel vouchers, expenditure transfer vouchers, and payment cancellations.

An Internal Audit of the Low Income Home Energy Assistance Program

Chapter 1-A

Payroll Transactions Funded with LIHEAP are Adequately Supported

For the 12 monthly payroll reports we tested, we verified that the employees paid with LIHEAP funds actually worked in positions that support the LIHEAP program, were budgeted using LIHEAP funds, and that their timesheets were reconciled to adjust the estimated amounts to the actual proportion of time spent working on LIHEAP.

We did not identify any issues with the payroll transactions in our sample. The Department reconciles salary payments with timesheets, and adjusts the LIHEAP grant according to the actual hours recorded for work on the LIHEAP programs. In addition, all employees that charged time to the LIHEAP grant in the sample we tested were related to the Community Affairs Division, the Compliance Division or the Program Planning Policy and Metrics Division, all of which administer or support the LIHEAP programs.

Chapter 1-B

Provide Additional Support for Expenditures Paid with LIHEAP Funds

For the 36 non-payroll items we tested, we evaluated whether the transaction was for the planning or administration of LIHEAP, whether the available documentation supported the transaction, and we calculated the portion of expenditures allocated to LIHEAP. We also reviewed the Department's allocation tables for agency-wide administrative expenditures to determine if a transaction was allocated to LIHEAP according to the allocation tables or another methodology used by the Financial Services Division.

Eleven (30.6%) of the 36 judgmentally selected non-payroll administrative expenditure items we tested did not indicate on the expenditure documentation how the allocation was determined and calculated.

For example:

- \$2,528.00 (20%) of a \$12,460.00 expenditure for weatherization-related software was charged to LIHEAP,
- \$532.51 (88.90%) of a \$599.00 expenditure for an online planning tool used in the LIHEAP and Community Services Block Grant (CSBG) programs was charged to LIHEAP, and
- \$178.89 (48.41%) of a \$369.30 expenditure for the purchase of Six Sigma publications for the Deputy Executive Director of Community Based Programs was charged to LIHEAP.

One (2.78%) of the 36 LIHEAP non-payroll administrative expenditure items tested was a \$62.53 charge allocated for HAPPY software, software that is only used by the Community Affairs Division's Housing Choice Voucher (Section 8) Program. This particular allocation was initiated and approved by the Accounting Operations section of the Financial Administration Division to allocate the software costs agency-wide.

According to the Office of Management and Budget (OMB) circular A-87² on cost allocation, allocable costs must be adequately documented and assignable to a cost objective in accordance with relative benefits received. In each of the examples above, the supporting documentation does not indicate how the amount allocated to LIHEAP was determined.

² OMB Circular A-87 was the guidance in effect for the period of time which covered the transactions we tested. The OMB Super Circular is now used as guidance for federally-funded programs such as LIHEAP.

An Internal Audit of the Low Income Home Energy Assistance Program

In addition, the Community Affairs Division allocates direct costs based on the purpose of the expenditure and the benefit to the respective program(s). If the allocation cannot be obviously determined based on the purpose of the transaction, it is discussed with division staff or management to determine the program(s) that benefit from the expenditure. However, the basis for the decision is not included on the purchase request. Without adequate documentation for a cost's allocation to LIHEAP funds, the degree to which the allocation is reasonable and allowable cannot be determined.

The risk of an incorrect cost allocation is further increased because no one in the Community Affairs Division or the Compliance Division reviews the LIHEAP expenditure reports in order to ensure that only LIHEAP related expenditures are charged to the program. As a result, errors or irregularities could occur that may not be detected nor corrected.

Recommendation

The Community Affairs Division should:

- note the rationale for cost allocations on their purchase requests or vouchers in order to document the reasonableness and allowableness of the cost, and
- review the LIHEAP expenditure reports on a regular basis in order to detect and correct errors promptly.

Management's Response

Management concurs with the recommendations and will further document the rationale for the allocations on PRs and vouchers. In the past management has utilized an internal system for allocation of costs based on the staff time utilized or content of the voucher/PR. The Community Affairs manager of Fiscal and Reporting will further document the rationale on the voucher or the PR prior to processing.
Staff Person Responsible: Michael De Young Target Date for Implementation: 5/15/2014

Management has already commenced tracking of the Community Affairs Division programs on a monthly basis in order to detect and correct errors during the charging of the grants by Financial Administration. Each of the contract specialists is responsible for their individual grant and the timely review of the monthly reported expenditures as charged by the financial administration group. The system for tracking expenditures has not been fully developed; however, it is anticipated that this system will be fully implemented by October 1, 2014, including the reconciling/ review of all expenditures through the beginning of the calendar year.
Staff Person Responsible: Michael De Young Target Date for Implementation: 10/1/2014

Chapter 2

Provide Subrecipients with Guidance in Defining Life-Threatening Crises and Documenting Bundled Utility Costs

The LIHEAP grant allows for utility payments to be made for clients experiencing a household crisis or life-threatening household crisis. We visited two subrecipients and tested a total of 137 judgmentally selected client files for clients who received crisis and utility assistance during calendar years 2012 and 2013. We evaluated whether subrecipients are expending CEAP funds for crisis and utility assistance on eligible clients and according to program rules. Specifically, we reviewed the supporting documentation in the client files to determine if clients met the income eligibility threshold, subrecipients used allowable income sources for income determinations, and the number and amount of assistance payments did not exceed the maximums for the CEAP program.

For the 137 files we tested, we did not identify any problems with client eligibility nor did we identify any ineligible utility payments. However, we noted that the subrecipients we visited do not document the difference between a household crisis and a life-threatening crisis. The Department requires that subrecipients define “life-threatening” when considering household crisis factors and develop policies to address life-threatening situations. However, neither the Department’s program rules nor the federal LIHEAP statutes provide guidance for determining what factors may be considered life-threatening.

In addition, one subrecipient did not have language in its vendor agreements regarding utility payments to vendors that bill for energy and other bundled services on a single bill and require payment for the entire bill in order for the account to be current. Eight (5.8%) of the 47 utility assistance client files we reviewed at one of these subrecipients included CEAP payments for utility bills that included other costs such as sewer, water and garbage collection. The Department’s CEAP rules require documentation from a vendor when heating and cooling payments are inseparable from other billing items for payment purposes.

Chapter 2-A

Subrecipients Need Guidance Regarding Crisis Designations

Subrecipients do not have specific documented definitions or policies for determining what constitutes a life-threatening household crisis in the crisis assistance component of CEAP. Despite lacking a formal definition or a method for identifying and responding to life-threatening crises, the subrecipients we visited still complied with the federal LIHEAP statutes and CEAP rules by pledging crisis funds on behalf of the client within 18 hours for all of the 137 crisis payments we tested.

The LIHEAP grant allows for utility payments for households experiencing a household crisis or life-threatening household crisis. A household crisis is defined in the Texas Administrative Code (TAC) Chapter 5, Subchapter D, Rule 5.423(a) as “extraordinary events or situations resulting from extreme weather conditions and /or fuel supply shortages... [that] have created problems meeting basic Household expenses, particularly bills for energy so as to constitute a threat to the well-being of the Household.” The TAC also states that a utility disconnection notice received within the last 60 days may constitute a household crisis.

The federal LIHEAP statute requires a crisis resolution within 48 hours after a household applies for crisis benefits, or within 18 hours if the household applying for crisis benefits is in a life-threatening situation. The Department requires that subrecipients define “life-threatening” and that they develop policies to address life-threatening situations. The U.S. Department of Health and Human Services recommends that

An Internal Audit of the Low Income Home Energy Assistance Program

grantees have written procedures that address the time limits for crisis response, including a clear definition of “life-threatening household crisis” that is in accordance with the LIHEAP statute.

However, neither the Department’s CEAP program rules nor the LIHEAP statutes provide guidance for determining what factors may be considered life threatening during a household crisis. The distinction of a household crisis as life threatening is important because of the difference in the statutorily required response times, which is 48 hours for a household crisis versus 18 hours for a life-threatening household crisis.

Recommendation

The Community Affairs Division should provide guidance to subrecipients in defining "life-threatening" crises and in developing written policies to address them.

Management’s Response

Management concurs with the recommendation and will require subrecipients to define life-threatening crisis for their clients through a clear definition or policy. The Department is aware of the demographic and geographic considerations that relate to delegating the definition of “Life Threatening Crisis” to the local providers. The requirement will be in place for the PY 2015 contracts and the Compliance Division will verify that the local definition of life threatening crisis is being correctly interpreted and implemented at the local level.

Staff Person Responsible: Michael De Young

Target Date for Implementation: 1/1/2015

Chapter 2-B

Subrecipients Should Obtain Support for the Inseparability of Utility Bills

The CEAP rules (Texas Administrative Code, Title 10, Part 1, Chapter 5, Subchapter D, §5.422(h)(4)) state that payment of other utility charges such as wastewater and trash removal are allowable only if these charges are an inseparable part of a utility bill, and requires documentation from the utility provider if they are unable to separate the energy portion of the bill. However, one of the two subrecipients we visited did not have this supporting documentation on file.

We tested a judgmentally selected sample of 79 CEAP client files at this subrecipient, of which 47 client files were utility assistance files and 32 were crisis assistance files. Eight (17.0%) of the 47 CEAP utility assistance client files reviewed included CEAP payments for utility bills with city services that included sewer, water and garbage collection as well as energy costs. Although the services are itemized on the utility bill, they are inseparable for payment purposes, meaning the service will be terminated if the entire bill is not paid.

All of this subrecipient’s vendor agreements use the same language, but the vendor agreements do not include provisions or additional attachments from the vendor stating that energy costs are inseparable from the other utility charges in the bill. The Department’s Compliance Division reviews subrecipients’ vendor agreements as part of their monitoring process, but their monitoring instrument does not specify which provisions must be included in the review.

Recommendation

- The Community Affairs Division should emphasize to their subrecipients the requirement that the subrecipient must obtain documentation from the utility provider when energy costs are inseparable from other utility costs for payment purposes, and
- The Compliance Division should modify its monitoring instrument to include a review of the documentation obtained from the utility provider indicating that the other utility costs cannot be separated from the energy costs.

Management's Response

Program Staff concurs with the recommendation and will propose a rule to require that subrecipients obtain a letter from the utility provider which documents the inseparability of the bundled utility costs and present the letter at the time of the monitoring to cover any clients files that receive utility services that are billed in a bundled invoice. The program staff will propose the rule language such that the letter will need to be updated at the same time that the vendor agreement is renewed.

Staff Person Responsible: Michael De Young Target Date for Implementation: 1/1/2015

The Compliance Division will modify their monitoring instrument to include the review of the letter documenting the inability to separate bundled utility bills.

Staff Person Responsible: Patricia Murphy Target Date for Implementation: 1/1/2015

Chapter 3

The Community Affairs Division has Processes to Track, Reconcile, and Distribute CEAP Funds

We examined data provided by the Community Affairs Division to determine if there were processes in place to track and re-allocate unspent funds. The Department tracks subrecipient expenditure performance, redistributes unspent CEAP funds, and reconciles subrecipients' reported expenditures with actual expenditures to ensure that funds are spent as required by the program rules.

The Department's program rules require that CEAP funds be allocated according to the allocation formula prescribed in the Texas Administrative Code and approved by the U.S. Department of Health and Human Services. In total, 50 subrecipients collectively received 171 CEAP contracts between 2011 and 2013 – 45 contracts in 2011, 43 original contracts plus 40 second-round contracts in 2012, and 43 contracts in 2013.

The Community Affairs Division tracks subrecipients' expenditure progress throughout the contracts. However, encouraging subrecipients to spend down balances can be difficult as client demand for CEAP assistance is seasonal, depending largely on weather conditions that cause increases to clients' utility bills.

Subrecipients may request funds in advance to cover 30 days of costs each month. Community Affairs Division staff checks these requests to see if the amount requested is in line with the subrecipient's recent reported activity. They may contact the subrecipients whose expenditures are not keeping pace with the contract period. Documentation to support the anticipated costs is generally not available because the requests are based on subrecipients' monthly projections. The Community Affairs Division relies on the Compliance Division to review the support for the actual expenditures during their periodic monitoring visits.

The Community Affairs Division reconciles the contracts at the end of the contract term to the Department's PeopleSoft accounting system to identify any payments owed as well as any remaining unspent balances. Unspent balances are then redistributed by the Department in accordance with the allocation formula. In 2012 (the most recent year for which Community Affairs has completed contract reconciliations), the Department redistributed \$49,293,721 in unspent LIHEAP funds to subrecipients for providing services to their clients. Over the past three program years, 24 of the 50 subrecipients (48%) did not spend all of their allocated funds. All 50 (100%) of the subrecipients were unable to expend at least one contract awarded to them between 2011 and 2013.

Chapter 4

Community Affairs Should Update the LIHEAP Policies and Procedures

Community Affairs Division's policies and procedures do not address the current processes for administering LIHEAP. The Community Affairs Division has not updated its policies and procedures since the monitoring function was moved from the Community Affairs Division to the Compliance Division in June 2012. The Division's procedures for administering LIHEAP contain responsibilities and positions that are no longer housed within the Community Affairs Division. Without current policies and procedures, the program's responsibilities may not always be performed as management intends.

Recommendation

The Community Affairs Division should finish updating its policies and procedures to reflect the roles and responsibilities of its staff in the current organization structure.

Management's Response

The Community Affairs Division concurs and will begin to consolidate and update the existing policies and procedures to reflect the current organizational structure.

Staff Person Responsible: Michael De Young

Target Date for Implementation: 10/1/2014

Appendix A

Objectives

The objectives of the audit were to determine whether:

- a. the Department is ensuring that LIHEAP funds are expended as intended by federal, state, and program rules, and
- b. if subrecipients are identifying and responding to life-threatening crises in accordance with federal, state, and program rules.

Scope

The scope of this audit was the Low Income Home Energy Assistance Program from January 1, 2011 through December 31, 2013.

Methodology

The following methodology was used to answer the audit objectives:

- Interviewed staff in the Community Affairs Division, the Compliance Division, the Financial Services Division, Accounting Operations, and Payroll.
- Reviewed:
 - the LIHEAP federal regulations,
 - the Texas Administrative Code,
 - the LIHEAP State Plan,
 - the LIHEAP-WAP and CEAP monitoring tools and checklists,
 - the CEAP subrecipient contracts for program years 2012 and 2013.
- Visited two subrecipients (Hill Country Community Action Agency and Travis County Health and Human Services).
 - Tested a sample of these subrecipients' client files to determine if the clients awarded CEAP funds met the eligibility requirements in:
 - a) the LIHEAP 2012 State Plan
 - b) the LIHEAP 2013 State Plan
 - c) Texas Administrative Code, Chapter 10, Subsections 5.19 to 5.23 and 5.407 to 5.424.
 - Interviewed subrecipient staff to determine how they define a life-threatening crisis situation as required by 10 TAC 5.423, and their process for identifying life-threatening crisis situations.
- Analyzed the awards, expended balances, and unexpended balances of CEAP contracts awarded in FY 2011, FY 2012, and FY 2013 using contract closeout data for 2011 and 2012 and the current reported expenditure data for 2013 provided by the Community Affairs Division.
- Selected a judgmental sample of the Department's LIHEAP-funded administrative expenditures and tested this sample for ineligible costs.
 - Tested expenditure transactions to determine if the expenditure was reasonable, allowable, and allocable.
 - Reviewed purchase requests, purchase vouchers, supporting invoices and other supporting information.

An Internal Audit of the Low Income Home Energy Assistance Program

- a) Interviewed Financial Administration and Community Affairs Division staff to gain an understanding of how allocations were determined and applied.
- Reviewed payroll reports and payroll adjusting entries and support.
 - a) We identified LIHEAP index funds used to pay salaries and reconciled the adjusting entries to the indexes for actual hours entered in timesheets.
- Verified the cost allocation rates applied to agency-wide allocated expenditures and to Division-specific expenditures.

Criteria

We used the following documents as criteria:

- Code of Federal Regulations Title 45 Part 96
- Low-Income Home Energy Assistance Act of 1981 (Title XXVI of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, as amended)
- U.S. Department of Health and Human Services Administration for Children and Families, Office of Community Services, Division of Energy Assistance, Information Memorandum LIHEAP-IM-2014-2
- Texas Department of Housing and Community Affairs 2014 LIHEAP State Plan
- Texas Department of Housing and Community Affairs 2013 LIHEAP State Plan
- Texas Department of Housing and Community Affairs 2012 LIHEAP State Plan
- Texas Department of Housing and Community Affairs, Compliance Division, Community Affairs Monitoring Section, Monitoring Instrument WAP Attachment C
- Texas Department of Housing and Community Affairs, Compliance Division, Community Affairs Monitoring Section, Monitoring Instrument CEAP Attachment A
- Texas Department of Housing and Community Affairs, Compliance Division, Community Affairs Monitoring Section, CEAP Program Year 2013 Household Crisis Monitoring Checklist
- Texas Department of Housing and Community Affairs, Compliance Division, Community Affairs Monitoring Section, CEAP Program Year 2013 Utility Assistance Monitoring Checklist
- Texas Department of Housing and Community Affairs CEAP subrecipient contracts for the FY 2012 Comprehensive Energy Assistance Program Texas Department of Housing and Community Affairs CEAP subrecipient contracts for the FY 2013 Comprehensive Energy Assistance Program Texas Department of Housing and Community Affairs Fiscal Year 2011 Operating Budget
- Texas Department of Housing and Community Affairs Fiscal Year 2012 Operating Budget
- Texas Department of Housing and Community Affairs Fiscal Year 2013 Operating Budget
- Texas Department of Housing and Community Affairs Fiscal Year 2014 Operating Budget
- Texas Administrative Code, Title 10, Part 1, Chapter 5, Subchapter A, Rule 5.19, 5.20, and 5.23
- Texas Administrative Code, Title 10, Part 1, Chapter 5, Subchapter D, Rule 5.403, 5.407, 5.422, 5.423 and 5.424

Type of Audit

This audit was a performance audit of the Low Income Home Energy Assistance 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 January 2014 through March 2014. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The following staff performed this audit:

Derrick Miller, Project Manager

Betsy Schwing, CPA, CGMA, CFE

Appreciation to Staff

We would like to extend our sincere appreciation to management and staff of the Community Affairs Division, the Compliance Division, and the Financial Administration Division for their cooperation and assistance during the course of this audit.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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April 24, 2014

*Writer's direct phone # 512.475.3813
Email: sandy.donoho@tdhca.state.tx.us*

RE: AN INTERNAL AUDIT OF THE AMY YOUNG BARRIER REMOVAL PROGRAM (REPORT # 14-1058)

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) Amy Young Barrier Removal Program (program.) This program is funded through the Housing Trust Fund, which consists of state funds appropriated by the Texas Legislature. (See text box for additional program information.) We determined that overall, the program is providing services as intended and in accordance with the Department's policies.

The program consists of five defined stages: the contract administrator set-up stage, the activity set-up stage, the work write-up stage, the construction contract stage, and the construction completion and draw request stage. Each stage has specific requirements and timeframes that must be met prior to receiving approval for the next stage. The activity set-up stage, the work write-up stage, and the construction contract stage are allowed a one-time extension of 30 days at the discretion of the Department.

We tested a judgmental sample of 30 activities from the activity set-up stage through the construction completion and draw request stage. For the 30 activities we tested:

- The total amount expended was \$485,841.97.
Of this \$448,388.53 was for project costs and \$37,453.44 was for direct delivery costs.

The Amy Young Barrier Removal Program

The Amy Young Barrier Removal Program (program) provides one-time grants of up to \$20,000 to persons with disabilities who need modifications to increase accessibility and eliminate hazardous conditions in their home.

During fiscal years 2012 and 2013, a total of \$5.2 million was committed and expended for the program. As of April 2, 2014, there were 306 homes completed with two additional homes still in progress. Twenty-eight contract administrators participated in the program.

The program allows no more than 25% of the projects funds to be used for health and safety costs. For fiscal years 2012 and 2013, a total of \$1.2 million could be spent on health and safety. Only \$382,600 (8.2%) was actually spent on health and safety costs.

(Source: Unaudited data provided by program staff.)



- The total amount allowed for health and safety costs was \$112,097.13 (25% of the project costs). The actual amount of health and safety costs expended was \$42,238.89 (9.4%) of the project costs.
- The total administrative costs were \$48,584 (10.0%) of the total expended amount.

Activity Set-Up Stage

The activity stage is when a contract administrator submits a reservation to commit funds to an eligible household. The Housing Contract System (HCS) is the automated system used to process the activities submitted. The program reviews each activity set-up for adherence to the program guidelines. Each activity set-up receives a first and second-level review. Of the 30 activities we tested:

- All 30 activities (100%) had a completed activity set-up review checklist signed by the first and second-level reviewer.
- All 30 activities (100%) had the required supporting documentation on file. All documents were completed and signed as required.
- There were 10 activities (33.3%) that had deficiencies on the original activity set-up submission. These deficiencies were later resolved.

However, we noted that both the first level and second-level review is performed by program staff and each staff has two separate log-ins in the HCS so that they can act as both a first and second-level reviewer. This creates a risk that one individual could review a file and then approve their own work. However, we did not note any instances of this happening in the files we tested.

Recommendation

The program should ensure that individuals who perform the first-level review of the activity set-ups are not also performing the second-level review of those same activity set-ups.

Management's Response

Management concurs with Internal Audit's recommendations regarding reviews. Currently SOPs already prohibit the same staff member conducting both first and second reviews of any reservation system transaction. To enhance oversight of compliance with current SOPs, management will generate a quarterly report that summarizes all reservation system transactions and the staff approvals associated with them. The report will be reviewed to confirm that no instances of review and approval by the same staff member are occurring.

Responsible Person: Homero Cabello

Target Date for Implementation: May 30, 2014

Work Write-Up Stage

The work write-up stage happens when the contract administrator submits the initial inspection, work write-up, cost estimate and "before" photos of the unit for review. Program staff review these documents to ensure the scope of the work meets the specifications and that the estimate is reasonable. Of the 30 activities we tested:

- 23 activities (76.7%) had the work write-up received within 30 days of the activity set-up approval.
- Seven activities (23.3%) did not receive the work write-up within 30 days of the activity set-up approval. However, one of the seven received an extension, and the remaining six were allowed extra time because the due date for the original submission fell on a weekend or holiday.
- All 30 activities (100%) had the initial inspection, work write-up and cost estimate review checklist completed, dated, and signed by staff.
- All 30 activities (100%) had the required supporting documentation on file. All documents were completed and signed as required.
- The average time between the activity set-up stage and the work write-up stage was 22.9 days.

Construction Contract Stage

During the construction contract stage, the contract administrator submits the bid package for the unit for review. Staff reviews the bid package to ensure that all of the requirements are met at which point the contract administrator is permitted to release the bid package so that a contractor can be selected to perform the modifications. Of the 30 activities we tested:

- For 19 activities (63.3%) the construction contract was received within 30 days of the approval of the work write-up. Eleven activities (36.7%) did not provide the construction contract within 30 days of the work write-up approval. Four of these were granted a 30-day extension. The remaining seven were allowed extra time because the original due date fell on a weekend or holiday.
- 29 activities (96.7%) had the construction contract review checklist completed, signed and dated by staff. There was one contract administrator that did not submit the construction contract for approval prior to beginning the construction work. Therefore, the Department was unable to review and approve the contract. However, program staff addressed this issue with the contract administrator.
- 29 activities (96.7%) had the required supporting documentation on file. All documents were completed and signed as required.
- 28 activities (96.7%) had cost estimates within the required 75%/25% construction cost to health and safety cost ratio. One activity (3.3%) was not within the 25% health and safety cost limit, but was granted a waiver for this requirement.
- The average time between the work write-up approval and the construction contract receipt date was 26.7 days.

Construction Completion and Draw Request Stage

Contract administrators have 120 calendar days to complete construction and submit the project and administrative draw request, along with the final inspection, invoice and “after” pictures. The program

staff performs a first level review of the draw request and other supporting documents and approves the draw in the HCS. The draw is then reviewed and approved by the Program Services Division, then reviewed and approved by accounting staff prior to payment. Of the 30 activities we tested:

- For all 30 activities (100%), the construction was completed and payment requested within 120 days of the construction contract approval date, or an extension was requested and granted.
- For all 30 activities (100%), the project completion and draw review checklist was completed, dated, and signed by staff.
- All 30 activities (100%) had the required supporting documentation on file. All documents were completed and signed as required.
- 11 activities (36.7%) requested change orders to the construction contract during the construction phase. All 11 (100%) received the necessary approval from the Department for the change order.
- The average time between the construction contract approval and the completed construction and draw submission was 70.3 days.

The program does not have a mechanism in place to determine if an individual or property was previously assisted. However, the program requires “before” pictures to be submitted prior to the property receiving assistance. The review of these pictures and the limited number of staff and projects involved in this program should enable the staff to identify any properties that were previously assisted.

The objective of this audit was to determine if the Amy Young Barrier Removal Program is providing services as intended and in accordance with the Department’s policies. The scope of our fieldwork was fiscal years 2012 and 2013. Our methodology consisted of interviewing responsible individuals, reviewing documentation and testing the activities submitted by the contract administrators.

This audit was conducted as part of our fiscal year 2014 internal audit plan. We conducted our fieldwork in April 2014. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the professional Practice of Internal Auditing*.

We would like to extend our sincere thanks to the management and staff of the Amy Young Barrier Removal Program for their cooperation and assistance during the course of this audit.

Sincerely,

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

Sqd/nak

cc:

An Internal Audit of the Amy Young Barrier Removal Program (Report # 14-1058)

April 24, 2014

Page 5

Tim Irvine, Executive Director

Brooke Boston, Deputy Executive Director Single Family, Community Affairs and Metrics

Homero Cabello, Director Office of Colonia Initiatives and Housing Trust Fund

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

Presentation and Discussion of the Status of External Audits.

REPORT ITEM

There were three (3) external audits or monitoring visits completed during fiscal year 2014 to date. An additional monitoring visit is anticipated in June.

BACKGROUND

So far, there have been three (3) external audits or monitoring visits in fiscal year 2014.

- The State Auditor's Office reported on the Department's annual financial statements in January.
- The Statewide Audit of Federal Funds was completed in March. This audit was performed by KPMG under contract with the State Auditor's Office.
- The State Auditor's Office performed some work at the Department as part of an audit of state data centers overseen by the Texas Facilities Commission. We anticipate receiving this report in June.

In addition, the U.S. Department of Housing and Urban Development (HUD) is planning to monitor the Emergency Solutions Grant Program (ESG) in June.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT DIVISION – STATUS OF FY 2014 EXTERNAL AUDITS
May 08, 2014**

External Audits/Monitoring Activities	Scope/Description	Stage	Comments
SAO	Annual opinion audits: <ul style="list-style-type: none"> • Basic Financial Statements for the FYE August 31, 2013. • Revenue Bond Program Audit for the FYE August 31, 2013. • FY 2013 Unencumbered Fund Balances. 	Completed	Final reports were released on December 20, 2013.
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 2013 and a review of significant controls over financial reporting and compliance with applicable requirements. This year KPMG audited the LIHEAP grant.	Reporting	Final report was released in March 2014.
SAO	The SAO is auditing selected agencies as part of a larger audit of the Texas Facilities Commission’s management of State Data Centers. Their objectives are to: <ul style="list-style-type: none"> • determine whether selected state agencies maintain physical controls over their data centers to help ensure the security of data center assets, and • determine whether the Texas Facilities Commission has (1) clearly defined its responsibilities for physical security at agency data centers and (2) implemented effective processes and related controls over physical security at agency data centers. 	Fieldwork	Final report will be released in June 2014.
HUD	HUD will be monitoring the Emergency Solutions Grant Program (ESG.) The objectives and scope of this review have not yet been communicated to the Department.	Planning	HUD will be conducting this monitoring visit in June 2014.

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

Presentation and Discussion of Recent External Audit Reports.

REPORT ITEM

There was one external audit report released since January. The annual Statewide Audit of Federal Funds performed by KPMG under contract with the State Auditor's Office was released in March 2014.

BACKGROUND

KPMG reviewed the Low Income Home Energy Assistance Program (LIHEAP) as part of the Statewide Audit of Federal Funds. The Department had one finding, which was a finding of non-compliance with no questioned costs. The Department did not retain the documentation needed to support the number of elderly, disabled, or young children served on the fiscal year 2012 LIHEAP Annual Report. The Department was unable to recreate the data because the supporting database is continuously updated. KPMG recommended that the Department retain the supporting documentation for all of the reports filed.

Texas Department of Housing and Community Affairs

Reference No. 2013-022

Reporting

CFDA 93.568 – Low-Income Home Energy Assistance

Award year – October 1, 2011 to September 30, 2013

Award number – G-12BITXLIEA

Type of finding – Non-Compliance

As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), and (2) the number of households served that contained young children, elderly, or persons with disabilities. Territories with annual allotments of less than \$200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR section 96.82). Key line items are noted as Section 1 – LIHEAP Assisted Households and Section 2 – LIHEAP Applicant Households.

Questioned Cost: \$0

U.S. Department of Health and
Human Services

For the federal fiscal year 2012 LIHEAP annual report, the Texas Department of Housing and Community Affairs (TDHCA) did not retain documentation for the number of elderly, disabled, or young children column in Section 1 of the report. TDHCA was unable to produce the report in arrears as the database is continuously updated.

Recommendation:

TDHCA should retain the supporting documentation of all reports filed.

Management Response and Corrective Action Plan:

The Community Affairs Division is automating the reporting system for each of the required annual reports. The queries for the reports are in the testing stage. When completed, the system will generate the submission as well as the backup documentation for historical purposes. Each submission will have a date stamped runtime to corroborate the reported totals. The backup documentation will be saved in accordance with the records retention schedule for the appropriate grant.

Implementation Date: April 30, 2014

Responsible Person: Cathy Collingsworth

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

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 6 current prior audit issues:

- 5 issues were recently 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. These 5 issues are for multiple divisions.
- 1 issue is still “pending” and is reflected on the attached list. Internal Audit will verify and close this issue once it is reported as “implemented.” This issue is for the Asset Management Division.

Texas Department of Housing and Community Affairs

Detailed Audit Findings

Report Name: HUD Affordable Housing Monitoring and Technical Assistance Visit

Division: Asset Management Division

Report Date: 08/17/2012

Current Status: Pending

Finding: Review of the multifamily portfolio report indicated that there are numerous projects that are out of compliance with the HOME Program requirements.

On June 20, 2012, Stephen Eberlein met with Tim Irvine, Executive Director and Sara Newsom, Director, HOME Program, to discuss issues and progress in resolving the defaulted activities listed in HUD's FY 2009 Monitoring Report. Following is a recapitulation of the meeting.

- St. John Colony Park alk/a, Del Meadows, Dale, TX - IDIS #4001- All issues have been resolved
- Thomas St. Apartments, 925 Thomas St, Linden, TX - IDIS #2727 - All issues have been resolved
- Colonias Del Valle, Pharr, TX-IDIS #2710- All issues have been resolved
- Mexia Homes - Mexia, TX - IDIS #2637 - *Enforcement action underway by State Administration Penalties Office*
- Juan Linn Apartments- Victoria, TX-IDIS #4369 - *New owner in place. Progress is being made to reestablish the LURA*
- Carriage Square Apartments - Dickinson, TX - IDIS #2670 - *Property was demolished. The land is being marketed for sale and redevelopment*
- Red River - Wharton, TX - IDIS # 7607 - *State is working with new owner to reestablish the LURA*
- Palisades at Belleville- Belleville, TX- IDIS #2647- *State is working with new owner to reestablish the LURA. Note: This owner also owns the Red River Project directly above.*
- Gardens of DeCordova - Granbury, TX - IDIS #26281- *Owner defaulted on construction loan. The private lien holder has maintained compliance with LIHTC/Board requirements and the state is optimistic that he will accept the HOME requirements. The state is scheduled to monitor this project in July 2012.*
- Community Action of South Texas - Three projects - All of the LURAs have been extended and all other issues resolved.
- Duncan Place- Hillsboro, TX- IDIS # -*State will request a grant reduction*
- Flamingo Bay Apartments (Lakeside Center) - 200 Garfield, LaPorte, TX - IDIS # 1529 - *State will request a grant reduction*

The following projects noted in the FY 2009 monitoring report have been brought into compliance and no further action is required at this time.

Lincoln Court Apartments - IDIS #2631
Port Yelasco Apartments - IDIS #2636
Colorado City Homes- IDIS #2676
Colorado City Homes II - IDIS #2677
Southeast Texas Community Development- IDIS #2680
Ebenezer Senior Housing- IDIS #2681
Spur Triplex - IDIS #2694
Sterling Park Square • ID IS #2696
Tyler Community Homes (Path) IDIS #2699

Texas Department of Housing and Community Affairs

Detailed Audit Findings

Weldon Blackard Rental- IDIS #2706
Railroad Street Rental Housing- IDIS #2711
Sunrise Villas Apartments IDIS #2723
Alamo Plaza Apartments- IDIS #3200
Villa De Reposo - IDIS #4002
Alta Vista Village Retirement Community- IDIS #4006
Spring Garden Apartments IV- IDID #4007
Plainview Duplex - IDIS #4008

Recommendation: Because two projects noted in FY 2009 report remain unresolved, this finding remains open. Once the remaining issues for *Duncan Place and FlamingoBay (Lakeside Center)* are resolved through repayment of the HOME Investment to the state's HOME Treasury Account; approval of a grant reduction; or otherwise brought into compliance, this finding can be cleared. The state needs to continue to work to bring the *Juan Linn and Red River* projects into compliance.

These final corrections need to be completed on or before February 28, 2013. If compliance cannot be achieved via one of the above-referenced options, the state must repay its HOME Treasury Account for the full amount of the HOME Investment for these projects from non-federal funds. The state should also provide a monthly update on the status of the above noncompliant projects with the first report being due on or before September 5th, and by the 5th day of each month thereafter.

Management Response: The Department is providing an update to HUD on the multifamily portfolio.

Target Implementation Date: 02/28/13

Actual Implementation Date: N/A

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

Recommendation Age (in days): N/A

Management has reported a revised implementation date as 07/31/13.

Texas Department of Housing and Community Affairs

Detailed Audit Findings

Report Name: An Internal Audit of Loan Processing

Division: Program Services

Report Date: 11/06/2013

Current Status: Implemented

Finding: The Department does not consistently obtain the trailing documents required to evidence that a loan is valid and that the Department's lien position is properly recorded.

We tested 90 closed loan files. We found that:

- 10 (11.1%) of the 90 closed loan files tested did not contain evidence that the deed of trust was recorded by the title company. If a deed of trust is not recorded, the Department's lien position, as stated by the deed of trust, could be superseded by other liens recorded prior to the recording of the Department's lien.
- 5 (5.6%) of the 90 closed loan files tested did not contain evidence of a title policy. Without evidence of a title policy, the Department does not have assurance that it is protected against damages resulting from problems with the title.
- 2 (2.2%) of the 90 closed loan files tested contained approved final HUD-1 settlement statements that were not the original document or a certified copy. Without evidence of a certified, executed final HUD-1 settlement statement, the Department does not have assurance that all parties to the loan transaction have been informed of the charges involved in the transaction.

The Department's loan closing policy requires staff in the Program Services Division to follow up each month on any trailing documents that have not yet been received from the title companies. However, Program Services does not run the reports necessary to identify missing trailing documents on a monthly basis.

In addition, closing instructions from the Department to the title companies direct the title companies to return certain trailing documents to Program Services. However, the deadlines for returning the trailing documents vary by program and are sometimes not consistent within the same program. This can create confusion for both the title companies and the Department's staff in tracking the due dates of trailing documents.

Recommendation: The Department should:

- obtain and review all of the required trailing documents from the title companies after closing,
- run the outstanding trailing document report monthly and follow up on any missing documents as required by the loan closing policy, and
- ensure consistency in the requirements for the return of trailing documents to the Department.

Management Response: Management concurs with the recommendations. The Program Services Division, working with the Loan Servicing Section and the program areas, as appropriate, will ensure that deadlines for submission of

Target Implementation Date: 12/31/13

Texas Department of Housing and Community Affairs

Detailed Audit Findings

trailing documents are made consistent and that there is systematic follow-up for the trailing documents to ensure they are received and reviewed for all closed loans. In addition, the Program Services Division will ensure that policies and procedures, including checklists, and monthly reporting, are updated and implemented by December 31, 2013, and that except as programmatic requirements may dictate otherwise, these are consistent from program to program.

Actual Implementation Date: 04/01/14

Responsible person: Brenda Hull

Corrective action date: December 31, 2013

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 Loan Processing

Division: HOME Division

Report Date: 11/06/2013

Current Status: Implemented

Finding: Thirteen (14.4%) of the 90 closed loan files we tested did not contain evidence of current title commitments when the loan was closed. Title commitments expire 90 days from their stated effective date. According to the Texas Administrative Code, Title 10, Part 1, Chapter 23, Subchapter C, §23.32 (b)(1) and Subchapter D, §23.42(b)(1), a title commitment or title policy that expires prior to execution of closing must be updated at closing. At the time of closing, these 13 expired title commitments were between 92 and 438 days old. Without updated title commitments, the Department does not have assurance that the property's title is clear from all other liens outside of the commitment's effective date and expiration date.

Recommendation: In instances where the title commitment has expired, the Department should ensure that an updated title commitment is received prior to closing.

Management Response: Management concurs with the recommendation and will immediately implement policies and procedures to ensure that the Department verifies that each loan has a current title commitment on file at the Department at the time of loan closing to demonstrate compliance with the Texas Administrative Code.

Target Implementation Date: 11/05/13

Actual Implementation Date: 04/09/14

Responsible person: Jennifer Molinari, Brenda Hull

Corrective action date: November 5, 2013

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 Loan Processing

Division: Program Services Division

Report Date: 11/06/2013

Current Status: Implemented

Finding: We tested 90 closed loan files for two disclosure statements, one required by the Truth in Lending Act and one required by RESPA. These disclosures must be provided to the borrower prior to loan closing. Six (6.7%) of the 90 files we tested were missing evidence of these disclosures. Five of the 6 files were missing both disclosures and one file was missing only the RESPA disclosure. Without these disclosures on file, the Department does not have evidence that it has complied with the federal requirements for these disclosures.

Recommendation: The Department should maintain evidence that disclosures required by the Real Estate Settlement Procedures Act and the Truth in Lending Act were provided to the borrower.

Management Response: *Management concurs with recommendation and will implement processes to ensure disclosures are maintained in the files.*

Target Implementation Date: 12/01/13

Actual Implementation Date: 04/01/14

Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull

Corrective action date: December 1, 2013

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 Loan Processing

Division: HOME Division

Report Date: 11/06/2013

Current Status: Implemented

Finding: The loan closing documents for HOME HBA loans are not prepared or reviewed by staff of the Department's Legal Division (Legal). Instead, the loan closing documents are prepared by an individual in Program Services using templates approved by Legal. However, these templates have not been reviewed or updated by Legal since 2011. As a result, errors or irregularities in the prepared loan documents could occur and may go undetected.

Recommendation: The Department should ensure that the Legal Division:

- periodically reviews the templates used by the HOME HBA loan closer to determine if they should be revised, and
- reviews the loan documents on a sample basis to ensure they are being completed accurately and used as intended.

Management Response: Management has reviewed the process for the preparation of HOME HBA loan documents and determined that the process will include a review by the Legal division. The updated process, including a Legal review for all loans, will be implemented by November 15, 2013. In addition, the HOME, Legal and Program Services divisions will ensure that the loan document templates are periodically reviewed and updated.

Target Implementation Date: 11/15/13

Actual Implementation Date: 11/15/13

Responsible person: Jennifer Molinari, Brenda Hull

Corrective action date: November 15, 2013

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 Loan Processing

Division: HOME Division

Report Date: 11/06/2013

Current Status: Implemented

Finding: We also noted that 12 (13.3%) of the 90 loan files we tested were not recorded in the Department's Loan Window. The Department's loan closing policies and procedures require Department staff to input information into the Loan Window at various points in the loan processing cycle. When staff does not update the Loan Window, staff members in other divisions who participate in the loan processing cycle are unable to track a loan's progress through the Department. In addition, information used to determine loan processing time is not readily available.

Recommendation: The divisions involved in loan processing should ensure that loans are entered into the Loan Window as required so that loan processing times can be tracked.

Management Response: Management appreciates the information regarding improved processing times and will ensure that loans are consistently entered and tracked in the Loan Window.

Target Implementation Date: 11/05/13

Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull

Actual Implementation Date: 11/15/13

Corrective action date: November 5, 2013

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

Recommendation Age (in days): N/A

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AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT

MAY 08, 2014

Presentation and Discussion of the Status of the Fraud, Waste and Abuse Hotline and Other Fraud Complaints.

REPORT ITEM

The Internal Audit Division received 67 complaints of fraud, waste or abuse in fiscal year 2014 (as of April 15, 2014).

BACKGROUND

In fiscal year 2014, Internal Audit received 67 fraud complaints. Of these:

- 63 calls were received on our hotline:
 - 10 were related to the Department's programs or staff:
 - Tax Credits - 8
 - Multi Family - 1
 - Personnel - 1
 - 51 were not related to the Department's programs or staff. These callers were referred to the appropriate agency for assistance.
 - 2 did not provide sufficient information to determine the purpose of the complaint.
- 4 complaints were received from other sources:
 - All 4 were related to the Department's programs:
 - CEAP and/or WAP - 1
 - CEAP and CSBG - 1
 - Compliance - 1
 - Tax Credits - 1

The sources for these 4 complaints were:

- TDHCA Staff – 2
- Public – 1
- Contract Administrator - 1
- 54 of the 67 complaints (80.6%) were not under the Department's jurisdiction.
- The 13 TDHCA complaints were resolved as follows:
 - Investigated and Closed – 7
 - Referred to SAO and/or other oversight agencies – 4
 - Pending – 2 (Both of the pending complaints were received in March 2014.)