

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Performance Measure Process (PM)
Audit Report # 19-005

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Performance Measures process and its records, procedures, policies and controls. Based on our reviews and testing, the Fair Housing Data Management and Reporting (FHDMR) has appropriate processes in place for the agency to pass a State Auditor's Office (SAO) audit with a rating of Certified with Qualification.

OIA does include two observations and recommendation which could strengthen the performance measure preparation procedures and controls of input, processing and review.

Observations and Recommendations

- Management should develop written policies and procedures and consistent records to be kept at the division level.
- Management should require review of the performance measure reports, controls and procedures to ensure accuracy in reporting.
- Management should strengthen written policies and procedures to be reviewed and standardized for performance measure preparation.

Management anticipates implementation of these actions on or before December 31, 2019.

Objective, Scope and Methodology

Based upon our risk assessment and other factors, we selected the Performance Measure function for review and testing. This audit was identified in the Fiscal Year 2019 Annual Audit Plan and included the objectives to evaluate the PM program for SAO audit readiness, and to review the procedures and information used in the preparation of quarterly and annual entries into the Automated Budget Evaluation System of Texas through review of records, policies, procedures and external reports (ABEST LBB).

The current audit covered all key performance measure data and reporting for FY 2018.



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

9/13/19

Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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SEPTEMBER 13, 2019

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: INTERNAL AUDIT OF PERFORMANCE MEASURES

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of Performance Measures (PM)*." This audit was identified in the Fiscal Year 2019 Annual Audit Plan and was conducted in accordance with applicable audit standards. It included the objectives of evaluating the key performance for readiness to pass a State Auditor's Office (SAO) performance measure review; and evaluating the records, reports, procedures and internal control procedures related to performance measure reporting to the Automated Budget Evaluation System of Texas.

Our scope included a review of the Texas Government Code (TGC), and the Texas Administrative Code (TAC). We also reviewed internal and external policies, processes, and procedures in the FY2018 Budget, Financial Statements, Legislative Budget Board (LBB), the Automated Budget Evaluation System of Texas (ABEST), General Appropriations Act (GAA), Legislative Appropriations Request (LAR),

various reports, and other related documents. Based upon our preliminary understanding of the PM Program, we identified critical points and risks; in order to develop audit objectives and an audit plan including methodology.

BACKGROUND

Performance measures assist in guiding an agency in planning, and to gauge the achievement of those plans once the period is complete. This guides the next period's planning for budget dollars to be requested for the ensuing biennium, and to establish an agency's activities and actual spending. Appendix 1, SAO Definition of Performance Measures, presents the SAO's definition of performance measure types and uses. Output and Efficiency Measure are submitted on a quarterly basis; Outcome and Explanatory are reported annually.

The Fair Housing Data Management and Reporting (FHDMR) Division manages the reporting to ABEST for TDHCA. The individual operation divisions at TDHCA are responsible for the compilation, calculation and reporting of their information. In 2018, FHDMR established a database for the divisions to directly report their information. FHDMR then reviews the input, compares it to the supporting information, and if those match, prepares a draft ABEST report for executive management review. FHDMR tracks those responses, answers any questions, makes needed corrections, and once the draft is completely accepted, the ABEST report is changed to completed status.

TDHCA has a designated performance measure coordinator located within the FHDMR division.

Submitting performance measures is completed by the steps presented in Appendix 2, the Standard Operation Procedures for Performance Measures.

There are four kinds of Performance Measures. Two of these are reported quarterly: Output Measures quantify an agency's workload, such as the goods and services it provides; and Efficiency Measures, which track the cost-efficiency, productivity and timeliness of agency operations. On an annual basis Outcome Measures assess an agency's effectiveness (results or impact) in serving its key customers and in achieving its mission, goals and objectives. An Explanatory Measure defines the agency's operating environments and explains factors that affect agency performance.

TDHCA has 27 Key Performance Measures, which cover the goals, objectives and strategies of affordable housing funds available through the number of houses assisted with financing; number of households assisted with single family or multi-family funds through the HOME program; the amount of available funds by very low, low and moderate income levels; the number of individuals served by Section 8 Rental Assistance; in the Community Affairs and Homelessness Programs by the number of people served, and the number of people improved by poverty assistance; the number receiving utility assistance, and the number of houses weatherized; in Manufactured Housing by the number of inspections of consumer complaints, how many complaints were resolved and the length of time it took to do so; the number of housing installation reports; Information and Assistance by how many requests were handled by the Housing Resource Center (HRC), number of households assisted through Housing Tax Credits (HTC), and in ensuring compliance by monitoring of the number of reviews of housing requirements and contract requirements.

Audit Results:

The State Auditor's Office (SAO) periodically conducts audits of state agencies' performance measures. The SAO grades each performance measure and rates them as:

- 1) Certified
- 2) Certified with Qualifications
- 3) Inaccurate
- 4) Factors Prevent Certification

Our primary objective of this internal audit was to determine whether TDHCA's Performance Measures would be certifiable in the event of an SAO audit. Performance Measures that have a Certified or Certified with Qualification rating are considered reliable.

There were no findings of inaccuracy or noncompliance.

Objective 1, determine whether TDHCA has adequate processes to pass an SAO performance measures audit:

Observation: All audited performance measures received an internal audit review score of Certified with Qualification. The primary reasons for the qualification were: lack of written policies and procedures in the operational divisions, accuracy of report totals for prior year to date numbers in 2018, consistent backup information at the operational division level, and inconsistent review of totals that were not correct or lack of review noted.

Management Response to Results of Objective 1:

Regarding "a lack of written policies and procedures at the operational divisional level" and "consistent backup information at the operational division level," SOP 1400.01 – LBB Performance Measures, section 3.1B.c. indicates that "procedures should be established by each division to make sure that in each division, processes and controls are established to ensure data are reliable and accurate." Management agrees that written policies and procedures are important to maintain Performance Measure accuracy and reliability. As such, SOP 1400.01 will be strengthened to 1.) require, and not simply suggest, that written policies and procedures be submitted and updated as necessary and 2.) require that written policies and procedures address how divisions will keep backup information.

Regarding the "accuracy of report totals for prior year to date numbers in 2018" and "inconsistent review of totals that were not correct or lack of review noted," as indicated in the Background section of this report, a database was launched in 2018 for the divisions to directly report their information. As FHDMMR continues with use of the database to complete a full biennium of reporting, refinements will continue to be made to the database and overall Performance Measure process. Management anticipates implementations of these actions on or before December 31, 2019.

Objective 2, review the reports, controls and procedures of the performance measures function to ensure accuracy in reporting.

Observation: While performance measure results were accurate, the controls over measure records, calculation and reporting were neither consistent nor adequate to ensure accuracy on a consistent basis. Measures preparation process could be improved:

Implement a consistent division performance measure preparation and documentation method.

Written policies and procedures did not exist at the division level for all divisions as SAO requires for performance measure preparation.

Review boxes are inconsistently used. Examples are they may be checked but calculations are may not be correct, and they may not be checked. Division directors are encouraged to review reports. Requiring review and signoff would strengthen this control.

Management Response to Results of Objective 2:

As noted above in the Management Response to the Results of Objective 1, SOP 1400.01 will be strengthened to require, and not simply suggest, that written policies and procedures be submitted and updated as necessary. Further, FHDMR plans to provide a template for the required division level written policies and procedures to include specific elements listed in the LBB Performance Measure Management Guide. These elements are the collection, calculation, review, and reporting of the performance measure data. Beyond the elements, the template will include a section for management signature and approval procedures. Management anticipates implementation of these actions on or before December 31, 2019.

Recommendation: The performance measure procedures and processes should be reviewed and strengthened to include written policies and procedures and standardization of report uses and fields used by a designated preparer at the division level. This needs to be completed for all performance measures. The SAO's Guide to Performance Measures Review states that it primarily selects for audit from the key performance measures, but they can access nonkey performance measures for review, as well.

Management Response to Recommendation:

As noted above in Management Responses to Results of Objectives 1 and 2, SOP 1400.01 will be strengthened to require written policies and procedures from each division. While many of the divisions currently do have written policies and procedures in place, FHDMR plans to provide a template for the written policies and procedures to ensure each division documents all elements listed in the LBB Performance Measure Management Guide. Management anticipates implementation of these actions on or before December 31, 2019.

Documentation:

OIA performed research and review of internal and external documentation and interviewed FHDMR personnel, division performance measure liaisons , prior audit reports, SAO's Guide to Performance

Measure Management 2012, LBB performance measure sections, to gain an understanding of the effectiveness of the performance measure process through these steps:

- researching and explaining the PM process
- determining and assessing the accuracy of data collection and calculation methodologies
- evaluating the accuracy of reporting
- evaluating the internal control procedures related to the program and review process
- confirming the status of prior audit open items, Internal Audit Report 14-1064

Testing:

We documented the performance measure process from the ABEST reports, through the database entries, the summary division information templates, and the supporting information for the measures tested. All key performance measures were reviewed for correctness, and six strategies containing eleven measures were then reviewed at the detail information level. OIA did not test for accuracy of source information. Input is reviewed by division staff and managers, FHDMR, executive management and the LBB for correctness.

During the course of our work, program areas and the performance measure database analyst were reviewed. Further development of procedures to ensure supervisory review of calculations, independent review of data entry into the Automated Budget Evaluation System of Texas (ABEST), and consistent documentation of program reviews or source data will strengthen the controls surrounding performance measure processes, and will help to ensure the accuracy of the reported measures.

Controls over the performance measure reporting include: performance measure reviews by division performance measure liaisons and division directors, comparison of data entered into the ABEST system with the Department's own performance measures database, and supporting information, as well as draft report review and comments by executive management before final submission to the Legislative Budget Board's ABEST platform. FHDMR has made improvements since establishment of a database, including coordinating performance measure definition review, which the LBB stated were 100% correct for the FY 2020-2021 biennium, which occurred during the current audit period.

Other control measures include processing of data; OIA located and FHDMR corrected a programming weakness which resulted in faulty Year-to-Date (YTD) calculations. The internal reports from the database now report this field correctly. This correction did not affect the accurate Performance Measure submission in ABEST.

Input control relates to original data received. OIA found one miscalculation in recomputing numbers but it was not on a key performance measure field and did not affect the reported numbers within the scope of this audit.

The Department's standard operating procedures for performance measure reporting exist at a department level but were not consistently found at the division level. Some had process steps but not an explanation of the procedure, some divisions did not have SOPs in existence for the time period this audit covered. The State Auditor's Office in their Guide to Performance Measure Management, 2012, indicates that an agency should clearly document all steps performed in the collection, calculation, and review and reporting of the performance measure data in its written policies and procedures.

We documented the PM process from the division liaison gathering the raw numbers, calculating the performance measures, reporting those to Fair Housing Data Management and Reporting (FHDMR), review of those numbers, and reporting those numbers to the LBB. We also interviewed management to gain an understanding of how the key measures are utilized as budget drivers for the next biennium's budget request.

A four step audit process; **data collection, calculation, reporting and review** was used to test the key performance measures reported for FY 2018 to the LBB, and used for the operating budget and LAR process:

Administration:

OIA extends our sincere appreciation to management and staff of the FHDMR and program staff for their cooperation and assistance during the course of this audit.

Sincerely,



Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director

MS/CK

Appendix 1, Appendix 3, Performance Measure Types, Uses and Examples, Guide to Performance Measure Management, 2012 edition, Texas State Auditor's Office (SAO)

Appendix 2, Excerpt from Appendix 2, Section 5 Step 9, Determine Each Performance Measure's Certification Category, Auditing Performance Measures, Guide to Performance Measure Management, 2012 edition, Texas State Auditor's Office (SAO)

Appendix 3

Performance Measure Types, Uses, and Examples

Types of Performance Measures

Type	Measure	Examples of Measures
Outcome (Results/Impact)	Assesses an agency's effectiveness (results or impact) in serving its key customers and in achieving its mission, goals, and objectives.	- Percentage of University Students Graduating in Four Years - Percentage of Licensed Establishments Inspected Annually - Percentage of Licensees With No Violations
Output (Volume)	Quantifies an agency's workload, such as the goods and services it provides.	- Number of Dual Diagnosis Clients Served for Substance Abuse - Number of Inspections Conducted - Number of Employee License Applications Processed
Efficiency	Assesses the cost-efficiency, productivity, and timeliness of agency operations.	- Average Cost Per Case - Average Cost Per Inspection - Average Time for Complaint Resolution
Explanatory	Defines the agency's operating environment and explains factors that affect agency performance.	- Percentage of Medical School Graduates Entering a Primary Care Residency - Number of Business Facilities Registered - Number of Cases Received

Use of Key and Non-key Measures

How a Measure Is Used	Key	Non-key ABEST	Non-key, Non-ABEST
In Legislative Appropriations Request?	Yes	Yes	No
In the General Appropriations Act?	Yes	No	No
In operating budget?	Yes	Yes	No
Reported quarterly/annually?	Yes	Yes*	No
Subject to certification?	Yes	Intermittently	No
Used by Legislature?	Yes	Yes	Intermittently
Used by budget offices?	Yes	Yes	Intermittently
Used by agency management?	Yes	Yes	Yes

*Reported through Legislative Appropriations Requests and operating budgets.

Examples of Outcome Versus Output Measures

Outcome Measure	Output Measure
Percent of Adults Who Complete Treatment Programs and Report No Past Month Substance Use at Follow-up	Number of Adults Served in Treatment Programs for Substance Abuse
Percent Increase in Fall Student Headcount Enrollment Since Fall 2000	Increase in Fall Student Headcount Enrollment Since Fall 2000
Percent of Licensees Who Renew Online	Number of Individual Licenses Renewed

Appendix 2, Excerpt from Appendix 2, Section 5 Step 9, Determine Each Performance Measure's Certification Category, Auditing Performance Measures, Guide to Performance Measure Management, 2012 edition, Texas State Auditor's Office (SAO)

Determine Each Performance Measure's Certification Category

Measures are designated as either "certified," "certified with qualification," "factors prevented certification," or "inaccurate." These categories are assigned based on a combination of the adequacy of the controls over a measure and the results of testing a sample of source documents. A performance measure result is considered reliable if it is certified or certified with qualification. The following are explanations for the four certification categories:

A measure is **Certified** if reported performance is accurate within 5 percent and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

A measure is **Certified With Qualification** when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A measure is **Inaccurate** when the actual performance is 5 percent or greater than the reported performance, or when there is a 5 percent or greater error rate in the sample of documentation tested. A measure also is inaccurate if the agency's calculation deviated from the measure definition and caused a 5 percent or greater difference between the number reported to ABEST and the correct performance measure result.

Factors Prevented Certification if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result. Results of the performance measures audit are published in a public report to be used by the LBB, GOBPP, and the Legislature. These results are presented in a table that contains the reference for the related objective or strategy, measure name, classification of measure, results reported in ABEST, and certification results. Findings and recommendations are developed for each measure that is not certified. Audited agencies will provide management responses to address each of the recommendations. Those responses will be published in the public report.