

AUDIT COMMITTEE MEETING OF MAY 12, 2004

**Shadrick Bogany, Chair**



Patrick R. Gordon, Member

Norberto Salinas, Member

***MISSION***

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

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

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**AUDIT COMMITTEE MEETING**

**MAY 12, 2004**

**ROLL CALL**

	Present	Absent
Bogany, Shadrick, Chair	_____	_____
Gordon, Patrick, Member	_____	_____
Salinas, Norberto, Member	_____	_____
Number Present	_____	
Number Absent		_____

\_\_\_\_\_, Presiding Officer

**AUDIT COMMITTEE MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**507 Sabine, Room 437, Austin, Texas**  
**Wednesday, May 12, 2004      6:00 p.m.**

**A G E N D A**

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

Shadrick Bogany  
Committee Chair

**PUBLIC COMMENT**

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

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

**ACTION ITEMS**

Item 1 Presentation, discussion and possible approval of Minutes of the Audit Committee Meeting of March 11, 2004      Shadrick Bogany  
Chair

**REPORT ITEMS**

Item 2 KPMG FY 2003 Statewide Federal Single Audit Report      David Gaines

Status of Prior Audit Issues      David Gaines

Section 8 Family Self Sufficiency Program      Eddie Fariss

Status of Central Database      David Gaines

**EXECUTIVE SESSION**

If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session      Shadrick Bogany  
Personnel Matters – Discussion Under Sec. 551.074, Texas Government Code of Performance Evaluation for Internal Auditor

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session      Shadrick Bogany  
Personnel Matters – Discussion and Possible Approval of Performance Evaluation for Internal Auditor

**ADJOURN**

Shadrick Bogany  
Chair

*To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin, Texas 78701, 512-475-3934 and request the information.*

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

*Non-English speaking individuals who require interpreters for this meeting should contact Delores Groneck, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.*

**EXECUTIVE OFFICE**

**AUDIT COMMITTEE ACTION REQUEST  
May 11, 2004**

**Action Item**

Audit Committee Minutes of March 11, 2004.

**Required Action**

Approve the minutes of the Audit Committee Meeting with any necessary corrections.

**Background**

The Committee is required to keep minutes of each of their meetings. Staff recommends approval of the minutes.

**AUDIT COMMITTEE MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**507 Sabine Street, Room 437, Austin, Texas 78701**  
**March 11, 2004                      11:00 a.m.**

**Summary of Minutes**

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

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of March 11, 2004 was called to order by Chair Shad Bogany at 11:10 a.m. It was held at the Texas Department of Housing and Community Affairs Boardroom, Austin, Texas. Norberto Salinas was absent. Roll call certified a quorum was present.

Members present:  
Shad Bogany – Chair  
Patrick Gordon – Member

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

**PUBLIC COMMENT**

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

Mr. Bogany called for public comment and no one wished to give comments.

**ACTION ITEMS**

- (1) **Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of December 11, 2003**  
Motion made by Patrick Gordon and seconded by Shad Bogany to approve the minutes of the December 11, 2003 Audit Committee Meeting.  
Passed Unanimously

**REPORT ITEMS**

- (2) **Management's Discussion and Analysis of Department's Financial Performance for the Fiscal Year Ended August 31, 2003**  
Mr. Bill Dally, Chief of Agency Administration, stated this is the second year that the Department is under the GASB reporting model. There are two new statements that are part of this reporting model that were not previously included in government deals and both are government wide statements. The Department has two fund types, the governmental fund and the proprietary fund or business-type activities. The proprietary fund is the fund used to issue bonds for the single and multifamily projects. The Department borrows money for these bonds and last year borrowed \$180 million in single family bonds and \$185 million in multifamily bonds. The overall increase on total bonds was \$124 million. The Department paid off \$251 million in bonds and this is related to the refinance activity due to the interest rates. People are refinancing the older issues which have higher interest rates and when that money comes in, the Department is getting principal and interest in the payoff. The Department also accounts for investments. Once the Department has sold bonds they are turned around into investments. They start with a guaranteed investment contract or a GIC, and those will be invested for 24 to 42 months while the loan origination is completed. That cycles into the mortgage backed securities such as the Fannie Maes or the Ginnie Maes. The final piece of funds that floats through those proprietary funds are the repayments of those loans. Those are collected monthly and deposited. Every six months TDHCA makes debt service and pays down the bonds. The investments are done through the

Public Funds Investment Act and in accordance with the Investment Policy and the quarterly reports are presented to the Board each quarter.

During FY 2003 the agency had an increase of \$80.2 million in investments. There were investments in mortgage backed securities and the Department had \$92 million in purchases in 2003 and \$182 million in the redemptions on maturities.

The other area is the governmental funds. These are either federal funds or state funds that are used in the various federal and state programs. These funds are either with the State Treasury appropriations or at the federal Treasury. Some of the programs are to alleviate homelessness, providing emergency relief for individuals in crisis poverty, establishing home ownership, housing rehabilitation and capacity building throughout the State.

On the governmental funds there was a large increase in the loans and contracts which went from \$59 million in 2002 to \$82 million in 2003. These loans and contracts reflect HOME and Housing Trust Fund loan programs administered by the Department. During 2003, the Department started administering down payment assistance loans that were received back from TSAHC. Those were returned and put on the Department's books. The Department also modified the reserve account of uncollectible loans from 40% down to 15% and 20%.

Mr. Dally stated that the GASB 34 statements which are the fund type statements were provided in the report along with the bond schedules.

**(3) Status of Prior Audit Issues**

Mr. Gaines stated on the HUD monitoring visit of 2001 that a letter was received from HUD that has cleared all issues. Management and staff has spent considerable time in working with HUD and providing documentation to support these issues.

Ms. Carrington asked the members to read the last page of the HUD report where HUD acknowledged the substantial efforts made by the state to resolve the serious deficiencies. It was noted in the letter that it is commendable that the state has elected to provide additional assistance to the beneficiaries of the subrecipients and HUD acknowledged the positive changes made by TDHCA through the reorganization and the restructuring.

Mr. Gaines stated this report reflects a summary of the audit, the scope of the audit, the auditor's name, the date of the report and a brief description of the audit issue. When an issue has been implemented, it is dropped from further reporting to the Board. It will continue to be tracked on the Department's prior issue tracking system and will stay on that system until it has been reported as implemented based on an independent assessment, at which time it will be dropped from the database.

Issue #187, the Sec. 8 Family Self Sufficiency Program: The Department has been working with HUD since the issue was reported and in January 2004 HUD approved a plan for the Houston area. The plan for outside the Houston area was approved in July 2003. The issue is being reported as implemented but the actual timeframe for implementation is through March 2005 as it is appropriate to report this issue as in-progress until the plan has been implemented.

Issues #253 through #260 are the HOME issues that HUD has cleared and will be removed from future reporting. Issue #306 is the first of a series of findings that resulted from an SAO audit on the Community Affairs Program. There are six issues being reported and three of those are implemented. Issue #320 and the next two relate to a HUD Rental Integrity Monitoring Review of the Section 8 Program that resulted in a report in August 2003. HUD has sent a letter to the Department where they expressed appreciation for the Department's outstanding job of accumulating documentation sufficient for these issues.

Issue #330 relates to the Department establishing a management information system to facilitate the tax credit program as it relates to the construction monitoring function. The Department is in the process of gathering program requirements in connection with developing a multifamily module in a central database and this should be completed by March 31, 2005. Issue #331 is the result of a Deloitte and Touche audit and relates to the need to establish mortgage loan reserves based on actual review of the loan portfolio and actual delinquencies and it has not been implemented.

One additional issue not in the report relates to a monitoring review conducted by HUD in August 2003 of the Texas Community Development Block Grant Program administered by the Office of Rural Community Affairs. This issue focused on the Colonia construction contracts at the Colonia self-help centers and the contracts that the Department has with ORCA relating to those centers. The Department has been informed that the issue has been resolved and a letter will be issued in that regard but has not been received in TDHCA's office.

Mr. Gaines stated there was another report included in the Board packet which reflects prior audit issues that have been previously reported as implemented.

**(4) Status of Central Database**

Mr. Gaines stated that this project was initiated in September of 1998 to develop a strategic plan for the information systems development needs and to satisfy future housing program compliance requirements and reporting needs. After analyzing the functionality to meet the Department's compliance-monitoring responsibilities and the reporting responsibilities, and reviewing the current systems that are being used, the strategic plan recommended that a single fully integrated central database be developed for all of the housing programs administered by the Department. The first module to be fully implemented was the contract monitoring and tracking and the original scope was multifamily units. The system was to satisfy the Departments performance measurement targets and legislative-mandated reporting requirements. It was also to offer online compliance reporting for property owners and provide automated compliance testing. It was installed for user acceptance testing in January 2002 and was made available to the property administrators in March 2003. From March to November 2003 the Department established strategies for the rollout of CMTS to the Department's business partners. In December 2003, the Department rolled out the contract system which replaces two of the Department's legacy systems that had previously been in use. Since December the team has been working on CMTS and contract system maintenance, which includes the database administration, establishing security and accounts for the business partners, correcting some of the functionality problems that have arisen, assisting the external contractors, performing one-on-one training as requested and developing reporting view to retrieve and use information in the system.

The Department has entered into a contract with AIMS for a needs analysis, business process improvement and designing specifications for entering and maintaining multifamily award data. Multifamily properties included are the housing tax credit program, HOME, multifamily bond and Housing Trust Fund Programs.

Mr. Bogany had questions on a timeframe on all the goals and was advised that the design work is to be completed by the first of April and is on schedule at this time.

**(5) Status of Internal/External Audits**

Mr. Gaines stated there is a planned audit by the State Auditors Office of the HOME and Housing Trust Fund programs. The objectives are to determine whether the Department has processes in place to deliver housing services to the neediest parts of the state, objectively awards contracts, effectively monitors the contracts, ensures funds are disbursed in a timely manner, and whether the Department has used the appropriations for the HOME and Housing Trust Fund programs in accordance with limitations and directions imposed by state and federal law, including riders to the General Appropriations Act and Department policy. They plan to begin the audit in early to

mid-summer but staff has requested that due to the awarding of funds in July, that the SAO begin its audit in August. The Department has not received a response to this request.

The Committee requested that the staff keep them updated on the status of the State Auditors Office audit on the HOME and Housing Trust Fund programs.

**EXECUTIVE SESSION**

If permitted by Law, the Committee may discuss any item listed on the agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

There was no Executive Session held.

**ADJOURN**

The meeting adjourned at 12:25 p.m.

Respectfully submitted,

Board Secretary  
p:dg/auminmar

*Texas Department of Housing and Community Affairs*

*KPMG FY 2003 Statewide Federal Single Audit Report*

€ *Background and Results*

€ *Federal Award Findings and Questioned Costs (summary of)*

€ *Federal Portion of Statewide Single Audit Report (excerpts relating to TDHCA)*

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
KPMG FY 2003 STATEWIDE FEDERAL SINGLE AUDIT REPORT  
BACKGROUND and RESULTS**

**BACKGROUND**

- § Non-Federal entities that expend \$500,000 or more in a year in Federal awards are required to have a single audit conducted for that year in accordance with OMB Circular A-133.
- § The Non-Federal entity as defined for the Statewide Federal Single Audit is the State of Texas.
- § The Statewide Federal Single Audit for the State of Texas for Fiscal Year Ended August 31, 2003 was conducted by KPMG, LLP pursuant to a contract with the Texas State Auditor's Office.
- § Agencies and programs are selected for audit based on Federal dollars expended within the audit period and the auditor's assessment of risks.
- § Programs administered by TDHCA selected for audit included:
  - § Section 8 Housing Choice Vouchers Program
  - § HOME Investment Partnerships Program (HOME)
  - § Low-Income Home Energy Assistance Program (LIHEAP)

**RESULTS**

Condition Noted by Auditors	Programs	Compliance Requirements	Finding Reference <sup>1</sup>
Material Weaknesses – Internal control component(s) does not reduce to a relatively low level the risk that noncompliance with the applicable laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.	Section 8	Special Tests and Provisions	340
	HOME Section 8 LIHEAP	Allowable Costs/Cost Principles	341
Reportable Conditions – Significant deficiencies in the design or operation of the internal control over compliance that could adversely affect the States ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants.	Section 8	Special Tests and Provisions Reporting	339 334
Material Non-compliance with certain requirements	HOME	Reporting	332
	Section 8	Reporting Special Tests and Provisions	334 339
	HOME Section 8 LIHEAP	Allowable Costs/Cost Principles	341 342
Other instances of non-compliance	HOME	Allowable Costs/Cost Principles	333
	Section 8	Reporting Eligibility Special Tests and Provisions	335 336 337, 338
Unable to obtain sufficient documentation supporting the compliance for certain program requirements	Section 8	Special Tests and Provisions	340

<sup>1</sup> See Reference number at *Federal Award Findings and Questioned Costs (Summary of)* for further information.

***Texas Department of Housing and Community Affairs  
Federal Portion of Statewide Single Audit Report (as it relates to THDCA)  
Federal Award Findings and Questioned Costs (Summary of)  
For the Year Ended August 31, 2003***

Ref. #	Report Date Auditors	Report Name Audit Scope	Status		Target
			Codes*	Date	Date
332	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	02/23/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Portfolio Management & Compliance

**Issue:** The Department did not comply with the reporting compliance requirements for HOME matching reports. When the 2002 match report was prepared, inaccurate dates were used resulting in State Energy Conservation Office expenditures of \$156,442 from October 2002 transactions (eligible for the 2003 match report) and subrecipient amounts of \$9,185 from 2001 transactions (eligible for the 2001 match report) being included. Questioned Cost: \$165,627 due to reporting match information in the wrong reporting period.

Ensure the proper dates are used to prepare the matching reports. In addition, amend the 2001 and 2002 HOME Match Reports for discrepancies noted during the audit.

**Status:** 02/23/04 - The Department implemented a new contract tracking system in December 2003 that includes controls to record match at the time a draw is approved and procedures were established to ensure proper cut-off of accruals and that match is reported in the proper year. To ensure accuracy going forward, the Portfolio Management and Compliance (PMC) Division will enhance its quality assurance processes, effective for the fiscal year 2003 match report. The State amended the fiscal year 2002 match report and submitted it to HUD to correct the errors noted during the audit. In discussions with HUD, management believes that amending the 2002 report resolves the issue and that amending the 2001 report is not necessary since the 2001 report includes sufficient match and amending the report would only increase the amount of match reported.

333	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	04/08/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Financial Administration - Accounting Operations

**Issue:** Instances of noncompliance with HOME allowable costs/cost principles requirements were noted. For two of six non-payroll expenditure items selected for test work, the method of allocation for the \$8,595 to the various Federal programs was not documented. Questioned Cost: \$8,595 due to undocumented methodology of allocation of certain expenditure items.

Maintain documentation of the allocation methods of costs incurred to support the allocability of the expenditures.

**Status:** 04/08/04 - Management reports that the allocation of costs incurred methods are now maintained to support the allocability of expenditures for all programs (Federal and non-federal) and, in the future, will ensure that documentation clearly supports the allocability of expenditures.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
334	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	02/23/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** The Department did not comply with the reporting compliance requirements for Section 8 Family Reports, which resulted in a reportable condition. A reportable condition involves a significant deficiency in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Discrepancies in the HUD-50058 - Family Report were noted when compared to recipient files. Similar deficiencies were noted in the HUD Rental Integrity Monitoring Review report dated 8/28/03.

Compare all data related to each family in the database as they are reviewed for renewal during fiscal year 2004 to supporting documentation in the file. Differences should be corrected, and TDHCA should continue to implement their responses to the HUD report.

**Status:** 02/23/04 - The quality assurance processes for the Section 8 Program were enhanced in August 2003 by requiring a second review of all files to minimize errors relating to data entry and the manual environment. Additionally, the Section 8 Management Assessment Program (SEMAP) quality control checklist was revised to include a more detailed review of the contract package. TDHCA has also implemented the recommendations resulting from HUD's August 2003 Rental Integrity Monitoring Review report. HUD letter dated October 30, 2003 closed each of the deficiencies noted in its review.

335	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Pxx	02/23/04	03/31/05
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** Instances of noncompliance with Section 8 reporting requirements were noted. The HUD Section 8 Management Report dated September 19, 2000 noted the Department had not implemented a family self-sufficiency (FSS) program and required the Department to provide an FSS program or apply for a waiver from HUD. Correspondence from HUD dated June 26, 2003, indicated that the Department received a waiver for all areas outside of Houston, Texas. The correspondence also indicated that the Department should submit an FSS action plan for the Houston area for HUD approval within 30 days. Additionally, lines 2k and 17a, Family's participating in the Family Self-Sufficiency Program, and line 17k(2), FSS account, were not completed on the HUD-50058-Family Report (OMB No. 2577-0083) for the families in the Houston area since the program was not implemented during fiscal year 2003.

Submit the Family Self-Sufficiency Program Action Plan for the Houston area. Once the action plan is approved by HUD, ensure that accurate FSS information is reported on the HUD 50058 Family Reports.

**Status:** 02/23/04 - Although management reported in its response that it considers the recommendation implemented since TDHCA's Family Self-Sufficiency Program (FSSP) Action Plan for the Houston area was approved by HUD letter dated January 12, 2004, the approved timetable for program implementation is April 1, 2004 through March 31, 2005. Section 8 management anticipates implementing FSSP contracts no later than March 2005, at which time TDHCA will have processes in place to ensure that FSSP information reported on the HUD 50058 Family Reports is accurate. Accordingly, the status has been reclassified by Internal Audit as in progress of implementation.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
336	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	02/23/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** An instances of noncompliance with Section 8 eligibility requirements were noted. For one of 30 tenants selected for test work, documentation was not available to determine if the tenant met the requirements of citizenship or eligible immigration status. Although the Department noted in a tenant's file that required citizenship documentation was not on hand and that it had been requested, the documentation was not obtained and benefits of \$1,262 were paid during the 2003 fiscal year. Questioned Cost: \$1,262 due to lack of eligibility documentation to support benefits paid in one out of 30 sampled tenants selected for test work.

Ensure that tenants are not renewed if they have not provided all the required documentation. TDHCA should track any open files and follow up on the pending items on a periodic basis.

**Status:** 02/23/04 - TDHCA set up and began using the Immigration and Naturalization Service (INS) automated system, Systematic Alien Verification for Entitlement (SAVE), in September 2003. TDHCA will use SAVE to verify the immigration status of persons claiming eligible immigration status. Open files will be tracked until all pending items are completed.

337	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	02/23/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** Instances of noncompliance with Section 8 special tests and provisions requirements were noted. Documentation of comparable rents for one of 30 tenants selected for test work was not available. Questioned Cost: \$1,870 due to lack of documentation of comparable rents for one unit tested.

Continue the management review of the rent reasonableness worksheets submitted by the local operators and remain cognizant of the need to complete the worksheet with all required information.

**Status:** 02/23/04 - TDHCA expanded the Section 8 Management Assessment Program quality control checklist form to include additional information pertaining to rent reasonableness in August 2003. The Regional Coordinator certifies the accuracy of the information and forwards the client file to the Section 8 Coordinator for final review. The additional information and review ensures that rent to be charged to the Section 8 tenant is not more than the rent charged for other unassisted comparable units prior to processing a file for housing assistance payments.

338	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	04/19/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** Instances of noncompliance with Section 8 special tests and provisions requirements were noted. HUD-52580-A forms were not properly completed for three of 38 reinspections reviewed.

Require individuals performing quality control inspections to complete each section of the HUD-52580-A form. In addition, the program manager should incorporate into the quality control inspection process a review of the forms for completion.

**Status:** 04/19/04 - The Department has implemented a plan for SEMAP quality control reinspections to address this finding.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
339	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	04/19/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** The Department did not comply with the special tests and provisions compliance requirements for Section 8, which resulted in a reportable condition. A reportable condition involves a significant deficiency in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Instances were noted where the local operator records the date of correction of a non-life threatening deficiency to be the date the operator returns to the site to determine if the correction has been made, which may be beyond the required 30 calendar days for corrections to be made.

Amend TDHCA policy so the local operators inspect invoices for purchased materials or other documentation to determine if the HQS deficiency corrections are made within 30 calendar days when the return site visit is later than the initial 30-day requirement. Also, TDHCA should create a standard extension notification letter to be sent to the owners and a copy kept in the respective files.

**Status:** 04/19/04 - The Department has updated the Administrative Plan and the extension notification to address this finding.

340	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	04/19/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Community Affairs - Section 8

**Issue:** The auditors were not able to conduct their audit of compliance in accordance with generally accepted auditing standards for the compliance requirement discussed below since they were unable to obtain sufficient documentation supporting compliance with the issue. The auditors considered this a material weakness, which is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Department made July and August 2002 payments on behalf of Section 8 tenants based on a utility rate schedule that had not been updated within the last year, which is required if there has been a rate change of 10% or more for a utility category or fuel type. Questioned Cost: \$72,587 due to past due utility allowance survey certification to compare utility allowance schedule to ensure that rent calculations were up-to-date.

The Department should obtain a new survey certification on an annual basis and adjust the utility allowance schedule for any changes greater than 10%.

**Status:** 04/19/04 - The Department completed utility schedules and mailed them to Local Operators in March 2004 to address this finding.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
341	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Ix	04/08/04	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Financial Administration - Accounting Operations

**Issue:** The Department did not comply with the allowable costs/cost principles compliance requirements. The auditors considered this a material weakness, which is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Department allocated to Federal grants the salaries and benefits of employees that worked on multiple activities or cost objectives (e.g. did not work solely on a single Federal award) during fiscal year 2003 based on budget allocations rather than an after-the fact distribution time based on the actual activity of each employee. Additionally, time sheets were not certified in compliance with requirements for the Section 8 program, whose employees worked solely on the Section 8 program. This condition resulted in the related salaries and benefits, as well as related indirect costs calculated based on direct salaries and wages, being questioned. Questioned Cost: \$572,156 due to the Department allocating salaries and benefits to all Federal grants during FY 2003 based on budget allocations rather than actual activity. Adjustments were made in November 2003 to correct the allocations.

Adjust budgeted salaries and benefits expenditures to actual based on timesheets submitted each reporting period. Once salary and benefit charges are adjusted to actual, calculate the amount of reimbursable indirect cost. Also, establish and implement a certification policy for the agency and ensure that all programs certify their timesheets in accordance with policy.

**Status:** 04/08/04 - TDHCA has complied with the provisions of OMB Circular A-87 by incorporating policies and procedures to ensure an interface between its automated time keeping system and its payroll distribution system. TDHCA procedures include certification measures for all federal programs. Staff will periodically adjust salaries and benefits to actual and calculate indirect cost accordingly.

342	02/23/04	Compliance with Requirements & IC over Compliance - A-133	Px	04/22/04	06/30/04
	KPMG	Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG)			

**Division:** Financial Administration - Accounting Operations

**Issue:** The Department did not comply with the allowable costs/cost principles compliance requirements for HOME. The Department continued to use an indirect cost rate approved by the U.S Department of Health and Human Services beyond 8/31/2000; the date HHS ceased to be the designated Federal cognizant agency for the Department. Questioned Cost: \$1,422,826 due to lack of current indirect cost rate agreement with cognizant agent.

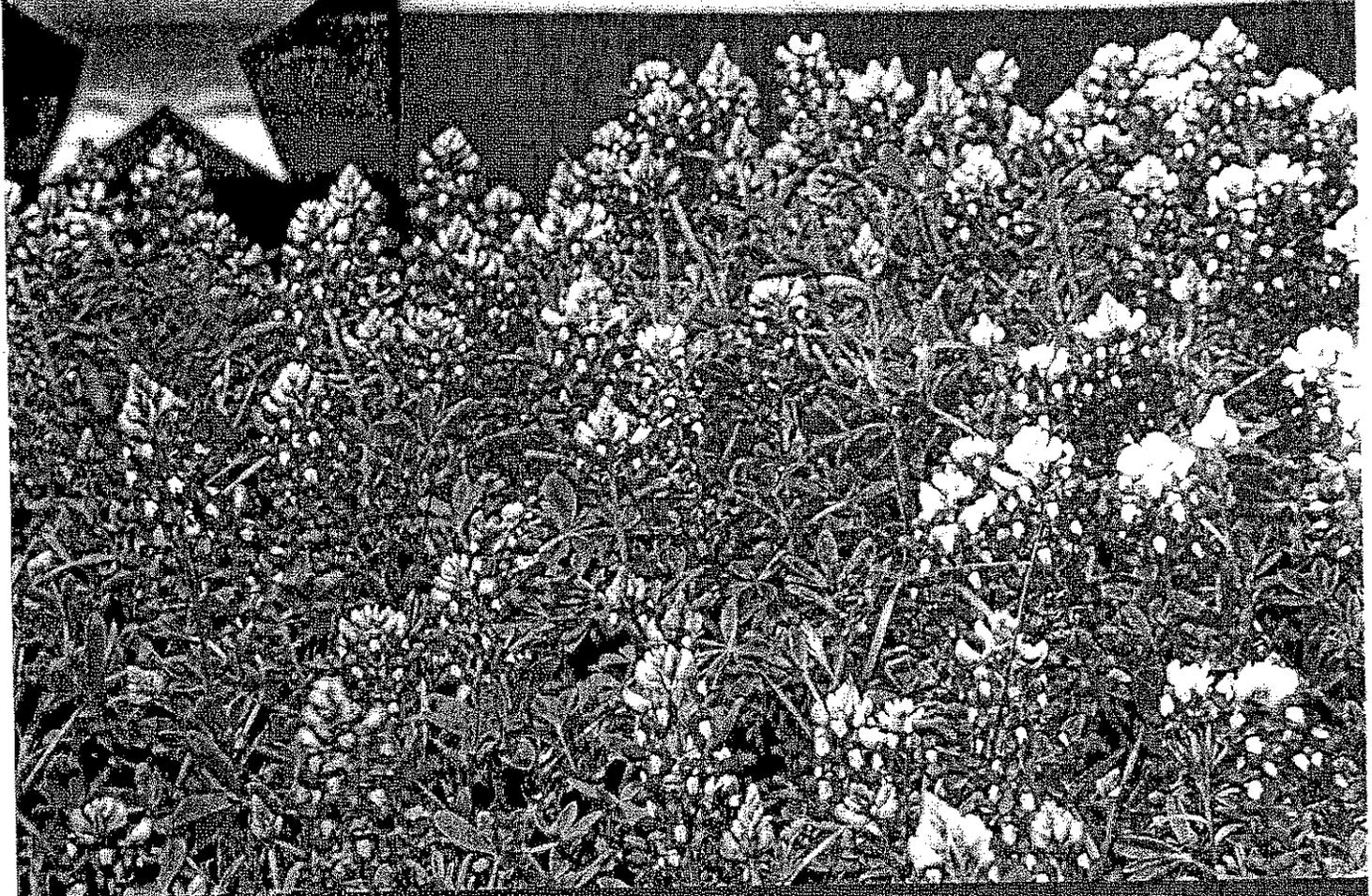
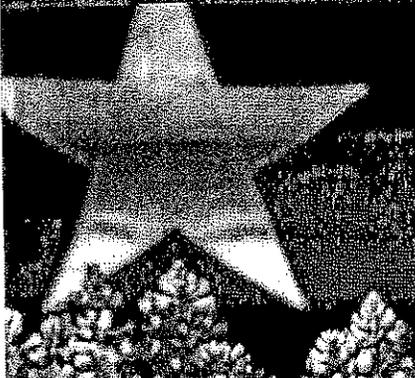
Contact Health and Human Services (HHS), the cognizant agent as of August 31, 2003, and obtain a current indirect cost rate agreement, or amend the grant agreements for each program to include a stated indirect cost rate.

**Status:** 04/22/04 - The Department continues its discussions with Federal Agencies concerning the negotiation of an indirect cost rate agreement. The Department has compiled and is prepared to submit its proposal to a federal sponsor.



# STATE OF TEXAS

*(Excerpts Relating to TDHCA)*



Federal Portion of  
Statewide Single  
Audit Report

For the Year Ended August 31, 2003

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**Independent Auditors' Reports**  
Federal Portion of  
Statewide Single Audit Report  
For the Year Ended August 31, 2003

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**Independent Auditors' Report  
on Compliance With Requirements Applicable to  
Each Major Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133**

The Honorable Rick Perry, Governor,  
and Members of the Texas State Legislature  
State of Texas:

**Compliance**

We have audited the compliance of the State of Texas (the State) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended August 31, 2003, except those requirements discussed in the seventh following paragraph. We also did not audit the State's compliance with compliance requirements applicable to CFDA 93.283, Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC program), which is approximately .13% of total federal assistance received by the State. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. The CDC program is identified in the accompanying Schedule of Findings and Questioned Costs as a major Federal program and was audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the CDC program, is based solely on the report of the other auditor. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The Schedule of Expenditures of Federal Awards and our audit described below does not include expenditures of Federal awards for the four component units of the State of Texas for financial statement purposes. Each of those agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State for the program compliance requirements listed below nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. These program's compliance requirements were:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 93.917 - HIV Care Formula Grants	Earmarking	04-10

Department of Housing and Community Affairs	CFDA 14.871 - Section 8 Housing Choice Vouchers	Special Tests and Provisions	04-24
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As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to certain of its major Federal programs. Based on our audit and the report of other auditors, compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major Federal programs. The results of the auditing procedures are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Subrecipient Monitoring	04-07
	CFDA 93.217 - Family Planning Services		
	CFDA 93.268 - Immunization Grants		
	CFDA 93.917 - HIV Care Formula Grants		
	CFDA 93.940 - HIV Prevention Activities-Health Department Based		
	CFDA 93.994 - Maternal and Child Health Services Block Grant to the States		
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Cash Management	04-11
	CFDA 93.217 - Family Planning Services	Allowable Costs/Cost Principles	04-08
	CFDA 93.268 - Immunization Grants		
	CFDA 93.917 - HIV Care Formula Grants		
	CFDA 93.940 - HIV Prevention Activities-Health Department Based		
	CFDA 93.994 - Maternal and Child Health Services Block Grant to the States		
	Medicaid Cluster		

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Special Tests and Provisions	04-12
	CFDA 93.283 - Center for Disease Control and Prevention - Investigations and Technical Assistance	Subrecipient Monitoring	04-27
Department of Housing and Community Affairs	CFDA 14.239 - HOME Investment Partnerships Program	Reporting	04-16
	CFDA 14.871 - Section 8 Housing Choice Vouchers	Reporting	04-18
		Special Tests and Provisions	04-23
	CFDA 14.239 - HOME Investment Partnership Program	Allowable Costs/Cost Principles	04-25
	CFDA 14.871 - Section 8 Housing Choice Vouchers		04-26
CFDA 93.568 - Low-Income Home Energy Assistance			
Department of Human Services	CFDA 93.558 - Temporary Assistance for Needy Families Food Stamps Cluster	Procurement, Suspension, and Debarment	04-28
Department of Mental Health and Mental Retardation	CFDA 93.958 - Block Grants for Community Mental Health Services Medicaid Cluster	Allowable Costs/Cost Principles	04-30
	CFDA 93.958 - Block Grants for Community Mental Health Services	Special Tests and Provisions	04-31
Department of Protective and Regulatory Services	CFDA 93.658 - Foster Care - Title IV - E	Eligibility	04-38
	CFDA 93.556 - Promoting Safe and Stable Families	Allowable Costs/Cost Principles	04-39
	CFDA 93.558 - Temporary Assistance for Needy Families		
	CFDA - 93.658 - Foster Care - Title IV - E		
CFDA 93.658 - Foster Care - Title IV - E Medicaid Cluster	Allowable Costs/Cost Principles	04-32	

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas A&M University - College Station	Student Financial Assistance Cluster	Special Tests and Provisions	04-40
Texas A&M University - Corpus Christi			04-42
Texas Southern University			04-44
			04-45
Texas Tech University			04-46
University of North Texas			04-51
University of Texas at Austin			04-57
University of Texas at El Paso			04-59
West Texas A&M University			04-60
University of Houston			Student Financial Assistance Cluster
University of Texas at Austin	Research and Development Cluster	Subrecipient Monitoring	04-54

In our opinion, based on our audit and the report of other auditors, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that are applicable to:

- CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
- CFDA 93.217 - Family Planning Services
- CFDA 93.268 - Immunization Grants
- CFDA 93.917 - HIV Care Formula Grants
- CFDA 93.940 - HIV Prevention Activities-Health Department Based
- CFDA 93.994 - Maternal and Child Health Services Block Grant to the States

In our opinion, based on our audit and the report of other auditors, except for the noncompliance described in the preceding two paragraphs and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements described in the third preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2003, other than those requirements discussed in the following paragraph. The results of our auditing procedures and the report of other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Higher Education Coordinating Board	Student Financial Assistance Cluster-Loan Servicing of FFEL	Special Tests and Provisions	04-02
	CFDA 84.048 - Vocational Education-Basic Grants to States	Reporting	04-03
Texas Education Agency	CFDA 84.002 - Adult Education	Reporting	04-04

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Health and Human Services Commission	Medicaid Cluster	Special Tests and Provisions	04-05
Department of Health	CFDA 93.917 - HIV Care Formula Grants	Allowable Costs/Cost Principles	04-09
	CFDA 93.940 - HIV Prevention Activities-Health Department Based	Allowable Costs/Cost Principles	04-14
	CFDA 93.268 - Immunization Grants	Special Tests and Provisions	04-15
Department of Housing and Community Affairs	CFDA 14.239 - HOME Investment Partnerships Program	Allowable Costs/Cost Principles	04-17
	CFDA 14.871 - Section 8 Housing Choice Vouchers	Reporting	04-19
		Eligibility	04-20
		Special Tests and Provisions	04-21 04-22
Department of Human Services	CFDA 93.566 - Refugee and Entrant Assistance - State Administered Programs	Allowable Costs/Cost Principles	04-29
Department of Mental Health and Mental Retardation	Medicaid Cluster	Cash Management	04-34
Department of Protective and Regulatory Services	CFDA 93.659 - Adoption Assistance	Eligibility	04-37
		Allowable Costs/Cost Principles	04-36
Texas A&M University - College Station	Student Financial Assistance Cluster	Reporting	04-41
Texas A&M University - Corpus Christi			04-43
Texas Tech University			04-47
University of Texas at Austin			04-55
University of Houston	Student Financial Assistance Cluster	Special Tests and Provisions	04-49
University of Texas at Austin			04-50
			04-56
			04-58
University of Texas at Austin	Research and Development Cluster	Cash Management	04-52

We did not audit compliance with requirements governing billing and collection of Perkins loans for certain portions of the State. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS) and AMS Servicing Group. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

The service organizations' compliance with the requirements governing the functions that they perform was examined by other accountants whose reports have been furnished to us. The reports of the other accountants indicate that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' reports, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the Student Financial Aid Cluster major program are addressed in either our report or the report of the respective service organization's accountants. Further, based on our review of the service organization accountants' reports, we have determined that they do not contain any findings of noncompliance that would have a direct and material effect on the Student Financial Aid Cluster major program.

### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing billing and collection of Perkins loans are performed by the service organizations noted above. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Copies of the service organizations accountants' reports have been furnished to us. However, the scope of our work did not extend to internal control maintained at the respective service organizations as noted above.

We and the other auditors noted certain matters involving the internal control over compliance and its operation that we and the other auditors consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, and are listed below excluding those reportable conditions we also consider to be material weaknesses:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Higher Education Coordinating Board	Student Financial Assistance Cluster - Loan Servicing of FFEL	Special Tests and Provisions	04-01 04-02
Health and Human Services Commission	Medicaid Cluster	Special Tests and Provisions	04-05
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Special Tests and Provisions	04-12

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>		
Department of Health	CFDA 93.940 - HIV Prevention Activities-Health Department Based	Allowable Costs/Cost Principles	04-14		
	CFDA 93.283 - Center for Disease Control and Prevention-Investigations and Technical Assistance	Reporting	04-61		
Department of Housing and Community Affairs	CFDA 14.871 - Section 8 Housing Choice Vouchers	Special Tests and Provisions	04-23		
		Reporting	04-18		
Department of Human Services	CFDA 93.566- Refugee and Entrant Assistance - State Administered Programs	Allowable Costs/Cost Principles	04-29		
Department of Mental Health and Mental Retardation	Medicaid Cluster	Cash Management	04-34		
Department of Protective and Regulatory Services	CFDA 93.556 - Promoting Safe and Stable Families	Cash Management	04-35		
	CFDA 93.558 - Temporary Assistance for Needy Families				
	CFDA 93.658 - Foster Care - Title IV - E				
	CFDA 93.659 - Adoption Assistance				
	CFDA 93.667 - Social Services Block Grant				
	CFDA 93.659 - Adoption Assistance			Eligibility	04-37
	CFDA 93.658 - Foster Care - Title IV - E			Eligibility	04-38
Texas A&M University - College Station	Student Financial Assistance Cluster	Special Tests and Provisions	04-40		
			04-44		
			04-45		
Texas Southern University			04-46		
Texas Tech University					

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
University of Houston	Student Financial Assistance Cluster	Special Tests and Provisions	04-49
University of North Texas			04-51
University of Texas at Austin			04-58
University of Texas at El Paso			04-59
Texas A&M University - Corpus Christi	Student Financial Assistance Cluster	Reporting	04-43
Texas A&M University - College Station			04-41
University of Houston			04-48
University of Texas at Austin	Research and Development Cluster	Cash Management	04-52
		Matching and Program Income	04-53
		Subrecipient Monitoring	04-54

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the following reportable conditions we and the other auditors also consider to be material weaknesses:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children CFDA 93.217 - Family Planning Services CFDA 93.268 - Immunization Grants CFDA 93.917 - HIV Care Formula Grants CFDA 93.940 - HIV Prevention Activities-Health Department Based CFDA 93.994 - Maternal and Child Health Services Block Grant to the States	Subrecipient Monitoring	04-07

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children	Cash Management	04-11
		Allowable Costs/Cost Principles	04-08
	CFDA 93.217 - Family Planning Services		
	CFDA 93.268 - Immunization Grants		
	CFDA 93.917 - HIV Care Formula Grants		
	CFDA 93.940 - HIV Prevention Activities-Health Department Based		
	CFDA 93.994 - Maternal and Child Health Services Block Grant to the States Medicaid Cluster		
	CFDA 93.917 - HIV Care Formula Grants	Earmarking	04-10
	CFDA 93.283 - Center for Disease Control and Prevention-Investigations and Technical Assistance	Subrecipient Monitoring	04-27
		Allowable Costs/Cost Principles	04-06
Cash Management		04-13	
Department of Housing and Community Affairs	CFDA 14.871 - Section 8 Housing Choice Vouchers	Special Tests and Provisions	04-24
	CFDA 14.239 - HOME Investment Partnership Program	Allowable Costs/Cost Principles	04-25
	CFDA 14.871 - Section 8 Housing Choice Vouchers		
	CFDA 93.568 - Low-Income Home Energy Assistance		
Department of Human Services	CFDA 93.558 - Temporary Assistance for Needy Families Food Stamps Cluster	Procurement, Suspension, and Debarment	04-28
Department of Mental Health and Mental Retardation	CFDA 93.958 - Block Grants for Community Mental Health Services Medicaid Cluster	Allowable Costs/Cost Principles	04-30
	CFDA 93.958 - Block Grants for Community Mental Health Services	Special Tests and Provisions	04-31

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Mental Health and Mental Retardation	Medicaid Cluster	Special Tests and Provisions	04-33
Texas A&M University - Corpus Christi	Student Financial Assistance Cluster	Special Tests and Provisions	04-42
West Texas A&M University			04-60

This report is intended solely for the information and use of the Governor, the Members of the Texas State Legislature, Legislative Audit Committee, management of State agencies and universities, and all Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 23, 2004

**Schedule of Findings and Questioned Costs**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2003

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Section I:

## Summary of Auditors' Results

### Financial Statements

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2003 Statewide Single Audit Report dated February 23, 2004.

### Federal Awards

1. Internal Control over major programs:
  - a. Material weakness(es) identified? Yes
  - b. Reportable condition(s) identified not considered to be material weaknesses? Yes

#### Major Programs with Reportable Conditions:

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871	Section 8 Housing Choice Vouchers
93.283	Center for Disease Control and Prevention-Investigations and Technical Assistance
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.566	Refugee and Entrant Assistance – State Administered Programs
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.940	HIV Prevention Activities-Health Department Based
Cluster	Medicaid
Cluster	Student Financial Assistance, including loan servicing of Federal Family Education Loans
Cluster	Research and Development

#### Major Programs with Material Weaknesses:

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
93.217	Family Planning Services
93.268	Immunization Grants
93.283	Center for Disease Control and Prevention-Investigations and Technical Assistance
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities-Health Department Based
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.958	Block Grants for Community Mental Health Services
93.994	Maternal and Child Health Services Block Grant to the States
Cluster	Food Stamps
Cluster	Medicaid
Cluster	Student Financial Assistance, including loan servicing of Federal Family Education Loans

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2. Type of auditors' report issued on compliance for major programs? See below

**Scope limitation:**

14.871 Section 8 Housing Choice Vouchers  
93.917 HIV Care Formula Grants

**Adverse:**

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
93.217 Family Planning Services  
93.268 Immunization Grants  
93.917 HIV Care Formula Grants  
93.940 HIV Prevention Activities-Health Department Based  
93.994 Maternal and Child Health Services Block Grant to the States

**Qualification:**

14.239 HOME Investment Partnerships Program  
14.871 Section 8 Housing Choice Vouchers  
93.283 Center for Disease Control and Prevention-Investigations and Technical Assistance  
93.556 Promoting Safe and Stable Families  
93.558 Temporary Assistance for Needy Families  
93.568 Low-Income Home Energy Assistance  
93.658 Foster Care – Title IV-E  
93.958 Block Grants for Community Mental Health Services  
Cluster Food Stamp Cluster  
Cluster Medicaid  
Cluster Research and Development  
Cluster Student Financial Assistance, including loan servicing of Federal Family Education Loans

**No Qualification:**

14.228 Community Development Block Grants/State's Program  
16.588 Violence Against Women Formula Grants  
21.000 Federal Relief Funds – Block Grant  
83.544 Public Assistance Grants (FEMA)  
84.002 Adult Education-State Grant Program  
84.010 Title I Grants to Local Educational Agencies  
84.048 Vocational Education – Basic Grants to States  
84.352 School Renovation Grants  
84.365 English Language Acquisition State Formula Grant  
84.367 Improving Teacher Quality State Grants  
93.566 Refugee and Entrant Assistance – State Administered Programs  
93.659 Adoption Assistance  
93.667 Social Services Block Grant  
93.767 State Children's Insurance Program  
Cluster Child Nutrition  
Cluster Highway Planning and Construction

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

3. Any audit findings disclosed that are required to be reported in accordance with *OMB Circular A-133*, Section 510(a)? Yes
4. Dollar threshold used to distinguish between Type A and Type B programs: \$44,119,126
5. Auditee qualified as low-risk auditee? No
6. Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.228	Community Development Block Grants/State's Program
14.239	HOME Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers
16.588	Violence Against Women Formula Grants
21.000	Federal Relief Funds – Block Grant
83.544	Public Assistance Grants (FEMA)
84.002	Adult Education-State Grant Program
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education – Basic Grants to States
84.352	School Renovation Grants
84.365	English Language Acquisition State Formula Grant
84.367	Improving Teacher Quality State Grants
93.217	Family Planning Services
93.268	Immunization Grants
93.283	Center for Disease Control and Prevention-Investigations and Technical Assistance
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families
93.566	Refugee and Entrant Assistance – State Administered Programs
93.568	Low-Income Home Energy Assistance
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities-Health Department Based
93.958	Block Grants for Community Mental Health Services
93.994	Maternal and Child Health Services Block Grant to the States
Cluster	Child Nutrition
Cluster	Food Stamp
Cluster	Highway Planning and Construction
Cluster	Medicaid
Cluster	Research and Development
Cluster	Student Financial Assistance, including loan servicing of Federal Family Education Loans

## Federal Award Findings and Questioned Costs - Table of Contents

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Health, Department of	168

## Department of Housing and Community Affairs

Reference No. 04-16

**Reporting****CFDA 14.239 - HOME Investment Partnerships Program****Type of finding - Material Non-Compliance**

Eligible matching contributions of 25% of all funds drawn are required to be provided by the end of the fiscal year. In addition, the Department of Housing and Community Affairs (DHCA) is required to report the match annually on the *HOME Match Report*, Form HUD-40107-A. The regulations stated in 24 CFR 92.221, state that a cash contribution is credited on a fiscal year basis at the time the funds are expended.

Questioned Cost: \$165,627

U.S. Department of Housing  
and Urban Development

Our audit procedures included a review of 14 State Energy Conservation Office (SECO) and 16 subrecipient matching expenditures. In this sample, we noted that each of the selected items were properly included in line 2, Match contributed during current Federal fiscal year, of the fiscal year 2002 HOME Match Report. Also the items appeared to be properly supported and allowable as eligible forms of matching. However, for two of the 14 SECO expenditures, the disbursement dates were October 2002, which would qualify the \$156,442 of expenditures for fiscal year 2003 match. Also, four of the 16 subrecipient match expenditures included fiscal year 2001 transactions totaling \$9,185. When the report was prepared, inaccurate dates were used resulting in SECO expenditures from October 2002 transactions and subrecipient amounts from 2001 transactions being included. DHCA does meet the minimum 25% matching requirement after excluding the above questioned amounts since the 2002 HOME Match Report included excess matching contributions.

Recommendation

DHCA should ensure the proper dates are used to prepare the matching reports. In addition, DHCA should amend the 2001 and 2002 HOME Match Reports for the above discrepancies.

Management Response and Corrective Action Plan:

*The Department has proper procedures in place to ensure that match is credited to the correct Federal fiscal year and that a system is in place to track match credit as it is made. The two exceptions noted by KPMG related to isolated instances whereby the staff member responsible for entering match information unintentionally used October 31 as the Federal fiscal year end date as opposed to the actual end date of September 30.*

*The State has amended the fiscal year 2002 match report and submitted it to HUD to correct the errors noted during the audit. As mentioned in the audit finding, the State's amended fiscal year 2002 match amount exceeded the required match, which carries over to the fiscal year 2003.*

*To ensure accuracy going forward, the Portfolio Management and Compliance (PMC) Division will enhance its quality assurance processes, effective for the fiscal year 2003 match report. PMC will use a combination of management and peer review to ensure proper cut-off for match reporting and to ensure that match is attributed to the correct Federal fiscal year prior to reporting match information to HUD.*

Implementation Date: November 19, 2003

Responsible Person: Sandy Mauro

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Subrecipient Match:

The Department agrees with the recommendation to establish procedures to ensure that match is credited during the proper period. The Department implemented a new contract tracking system in December 2003 that includes controls to record match at the time a draw is approved. In connection with implementing the system, staff reviewed matching contribution for fiscal year 2003 to ensure that the data was accurate and in accordance with the new procedure of recording match as of the draw date. Procedures were also established for the payment of accruals at year-end to ensure proper cut-off and that match is reported in the proper year.

Implementation Date: Completed

Responsible Person: Lucy Trevino

Reference No. 04-17

**Allowable Costs/Cost Principles**

**CFDA 14.239 - HOME Investment Partnerships Program**

**Type of finding - Non-Compliance**

OMB Circular A-87 provides general guidelines for allowable costs. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objectives in accordance with relative benefits received. For two of six non-payroll expenditure items selected for test work, the method of allocation of \$8,595 to the various Federal programs was not documented. These items were for professional fees for financial audits for the Department of Housing and Community Affairs (DHCA) which management believes benefited all programs, both Federal and non-federal. Total professional fees allocated to the program for fiscal year 2003 were approximately \$129,000.

Questioned Cost: \$8,595 U.S. Department of Housing and Urban Development
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Recommendation

Documentation of the allocation methods of costs incurred should be maintained to support the allocability of the expenditures.

Management Response and Corrective Action Plan:

DHCA has reviewed its allocation methods and corresponding documentation. In the future, DHCA will ensure that documentation clearly supports the allocability of expenditures.

Implementation Date: March 31, 2004

Responsible Person: David Cervantes

Reference No. 04-18

**Reporting****CFDA 14.871 - Section 8 Housing Choice Vouchers****Type of finding - Reportable Condition Control and Material Non-Compliance**

The Department of Housing and Community Affairs (DHCA) is required to submit HUD-50058 - Family Report (OMB No. 2577-0083) electronically to U.S. Department of Housing and Urban Development each time DHCA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. DHCA must also submit the Family Report when a family ends participation in the program or moves out of DHCA's jurisdiction under portability (24 CFR part 908 and 24 CFR section 982.158).

Questioned Cost: \$0

U.S. Department of Housing  
and Urban Development

In our sample of 30 recipient files, the following 13 discrepancies were noted in 11 of the 30 family reports. It appears the majority of the information was entered into the database in prior years and is being carried forward as the family is reexamined for eligibility.

- The social security number (line 3n) for the head of the household of one report did not agree to the social security card on file.
- The social security numbers (line 3n) for a dependent on three different reports did not agree to the social security cards on file.
- The social security number (line 3n) for a dependent for one report did not agree to the TANF benefits history which was obtained in lieu of a social security card.
- The date of birth (line 3e) for a child on three different reports did not agree to the personal declaration form completed by the head of the household.
- The name of the child (lines 3b and 3c) on two reports was spelled differently than the supporting documentation.
- The unit address (line 5a) for two reports did not agree to supporting documentation.
- The inspection date (line 5h and 5i) did not agree to the inspection form for one report.

In addition, the U.S. Department of Housing and Urban Development (HUD) issued a Rental Integrity Monitoring Review dated August 28, 2003 with five deficiencies sited with regard to the family reports. HUD noted the following:

- Eleven of 35 files lacked adequate third party verification of assets, public assistance, social security, and child support income.
- Twenty-seven of 35 files did not record the correct amount of payment on line 12j.
- Three of the 35 files failed to record or exclude food stamp income.
- Two of the 35 files failed to verify immigration eligibility.
- DHCA is maintaining the criminal background check documentation in the files.

Recommendation

DHCA should compare all data related to each family in the database as they are reviewed for renewal during fiscal year 2004 to supporting documentation in the file. Differences should be corrected. DHCA should continue to implement their responses to the HUD report.

Management Response and Corrective Action Plan:

*DHCA recognizes the importance of providing HUD accurate information. In an effort to do this, DHCA has enhanced its quality assurance processes for the Section 8 Program in August 2003 by requiring a second review of all files to minimize errors relating to data entry and the manual environment. DHCA revised the Section 8 Management Assessment Program (SEMAP) quality control checklist to include a more detailed review of the contract package.*

## HOUSING AND COMMUNITY AFFAIRS, DEPARTMENT OF

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Each renewal year, DHCA must re-certify Section 8 client eligibility and create a new file for that client. In each newly created client file for the renewal year, DHCA includes all permanent eligibility verification documentation, including birth certificates, social security cards, citizenship, and criminal history. Using the SEMAP quality control checklist, DHCA's Regional Coordinator annually reviews the eligibility documentation for accuracy. The Regional Coordinator then enters the data in the HUD Form 50058. The Regional Coordinator certifies the accuracy of the information and forwards the client file to the Section 8 Coordinator for final review and certification.

Implementation Date: Completed

Responsible Person: Willie Faye Hurd

### Implementing HUD's Recommendations:

DHCA has implemented the recommendations resulting from HUD's August 2003 report regarding its Rental Integrity Monitoring Review. HUD letter dated October 30, 2003 closed each of the deficiencies noted in its review. The corrective actions taken by DHCA to address each of the deficiencies noted included the following:

- DHCA began requiring its Local Operators to work with its Regional Coordinators in October 2003 to utilize DHCA's online electronic reporting systems to access the Tenant Assessment Sub System (TASS) of the Texas Workforce Commission and the Child Support Interactive System of the Attorney General's Office for third party verification. The tenant files are being documented with the reasons when third-party verification is not available. DHCA added a section to its Administrative Plan on the methods of verification and the order of acceptability for the tenant file to be properly documented.
- DHCA's Information Systems staff completed modification to the software program in August 2003 to accurately display the payment standard on the form HUD-50058, and Section 8 staff is now inputting the appropriate Payment Standard on line 12j of the form.
- In September 2003, Section 8 staff began properly recording food stamp information in Section 7 of the form HUD-50058 when calculating tenant eligibility.
- DHCA set up and began using the Immigration and Naturalization Service (INS) automated system, Systematic Alien Verification for Entitlements (SAVE), in September 2003. Persons claiming eligible immigration status must present appropriate immigration documents that will be verified utilizing this system.
- In September 2003, Section 8 staff removed and destroyed the criminal background checks that were locked in a separate file and began destroying them after eligibility has been determined.

Implementation Date: Completed

Responsible Person: Willie Faye Hurd

Reference No. 04-19

**Reporting****CFDA 14.871 - Section 8 Housing Choice Vouchers****Type of finding - Non-Compliance**

The U.S. Department of Housing and Urban Development's (HUD) Section 8 Management Report dated September 19, 2000 noted the Department of Housing and Community Affairs (DHCA) had not implemented a family self-sufficiency (FSS) program. DHCA is required to provide a FSS program or apply for a waiver from HUD. Correspondence from HUD dated June 26, 2003, indicated that DHCA received a waiver for all areas outside of Houston, Texas.

Questioned Cost: \$0

U.S. Department of Housing  
and Urban Development

The correspondence also indicated that DHCA should submit a FSS action plan for the Houston area for HUD approval within 30 days. As of November 2003, DHCA has not submitted the required action plan. Additionally, lines 2k and 17a, Family's participating in the Family Self-Sufficiency Program, and line 17k(2), FSS account, were not completed on the HUD-50058 - Family Report (OMB No. 2577-0083) for the families in the Houston area since the program was not implemented during fiscal year 2003.

Recommendation

DHCA should submit the required action plan for the FSS program in the Houston area. Once the action plan is approved by HUD, DHCA should ensure that it reports accurate FSS information on the HUD-50058 Family Reports.

Management Response and Corrective Action Plan:

*DHCA has completed the Family Self-Sufficiency Program (FSSP) Action Plan for the Houston area and submitted the plan to the Fort Worth HUD Office on November 19, 2003, which was approved by HUD letter dated January 12, 2004. The approved timetable for program implementation is April 1, 2004 through March 31, 2005. We anticipate implementing FSSP contracts no later than March 2005, at which time DHCA will have processes in place to ensure that FSSP information for lines 2k, 17a, and 17k(2) is properly completed.*

*Implementation Date: Completed*

*Responsible Person: Willie Faye Hurd*

**HOUSING AND COMMUNITY AFFAIRS, DEPARTMENT OF**

Reference No. 04-20

**Eligibility**

(Prior Audit Issue - 03-16)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**

**Type of finding - Non-Compliance**

24 CFR section 5.508 requires each family member to provide evidence to the Department of Housing and Community Affairs (DHCA) of at least a signed declaration of their U.S. citizenship or U.S. nationality. DHCA may request additional documentation. DHCA's policy is that additional documentation, such as U.S. passport, be provided. For one of 30 tenants selected for test work, documentation was not available to determine if the tenant met the requirements of citizenship or eligible immigration status. The tenant noted, was admitted to the program on February 1, 2000 without the proper citizenship documentation. During the renewal process in 2003, DHCA noted in the tenant's file that the required citizenship information was not provided and requested the information from the tenant. However, the documentation was not obtained and benefits of \$1,262 were paid during the 2003 fiscal year. Total benefits paid for fiscal year 2003 were approximately \$9,495,000.

Questioned Cost: \$1,262

U.S. Department of Housing  
and Urban Development

Recommendation

DHCA should not renew a tenant when the tenant has not provided all the required documentation. DHCA should track these open files and follow up on the pending items on a periodic basis.

Management Response and Corrective Action Plan:

*DHCA set up and began using the Immigration and Naturalization Service (INS) automated system, Systematic Alien Verification for Entitlement (SAVE), in September 2003. DHCA will use SAVE to verify the immigration status of persons claiming eligible immigration status. Open files will be tracked until all pending items are completed.*

Implementation Date: Completed

Responsible Person: Willie Faye Hurd

Reference No. 04-21

**Special Tests and Provisions - Reasonable Rent**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**

**Type of finding - Non-Compliance**

24 CFR 982.507 requires the Department of Housing and Community Affairs (DHCA) to certify that the rent charged to the housing choice voucher tenant is not more than the rent charged for other unassisted comparable units. 24 CFR 982.507(c) notes that the owner of the units must provide DHCA with rent information for other comparable units. DHCA's policy is for local operators to complete a standard rent reasonableness determination worksheet including rents for unassisted comparable units. For one of 30 tenants selected for test work, documentation of the comparable rents for the unit was not available. Section 8 Housing Choice Voucher payments made on behalf of the noted tenant totaled \$1,870. Total benefits paid for fiscal year 2003 were approximately \$9,495,000.

Questioned Cost: \$1,870

U.S. Department of Housing  
and Urban Development

Recommendation

DHCA should continue its management review of the rent reasonableness worksheets submitted by the local operators and remain cognizant of the need to complete the worksheet with all required information.

Management Response and Corrective Action Plan:

*DHCA expanded the Section 8 Management Assessment Program quality control checklist form to include additional information pertaining to rent reasonableness in August 2003. The Regional Coordinator certifies the accuracy of the information and forwards the client file to the Section 8 Coordinator for final review. The additional information and review ensures that rent to be charged to the Section 8 tenant is not more than the rent charged for other unassisted comparable units prior to processing a file for housing assistance payments.*

*Implementation Date: Completed*

*Responsible Person: Willie Faye Hurd*

Reference No. 04-22

**Special Tests and Provisions - Housing Quality Standards Inspections**

(Prior Audit Issue - 03-18)

**CFDA 14.871 - Section 8 Housing Choice Vouchers****Type of finding - Non-Compliance**

24 CFR sections 982.159(d) and 982.405(b) require the inspection and reinspection of a unit leased to a family at least annually to determine if the unit meets housing quality standards. A unit inspection report must be prepared as a result of the inspection process. The Department of Housing and Community Affairs (DHCA) utilizes the Form HUD-52580-A, *Inspection Form for the Housing Choice Voucher Program*. In order to properly perform an inspection or reinspection, each area of the form should be completed and the reinspections should be completed within three months of the original inspection. Our review of 38 reinspections noted that three HUD-52580-A forms were not properly completed. For these three reinspections, the inspections were performed timely and the form was in the file. However, certain areas of the three reinspection forms were left blank.

Questioned Cost: \$0

U.S. Department of Housing  
and Urban Development

Recommendation

Individuals performing quality control inspections should be required to complete each section of the HUD-52580-A form. In addition, the program manager should incorporate into the quality control inspection process a review of the forms for completion.

Management Response and Corrective Action Plan:

*DHCA is complementing the Section 8 resources by cross training and certifying Weatherization Assistance Program (WAP) monitors to perform the Section 8 Management Assessment Program inspections. The WAP monitors will complete the U.S. Department of Housing and Urban Development (HUD) 52580-A Inspection Form for Housing Choice Voucher Program. Energy Assistance and Section 8 staff will conduct quality assurance reviews to ensure that all applicable areas of the form are completed.*

**HOUSING AND COMMUNITY AFFAIRS, DEPARTMENT OF**

*Additionally, over 30 DHCA employees have been trained by Bernard J. Morosco Consulting – Inspection and Training Services and took an exam on January 29, 2004 to be certified as Federal Housing Quality Standards Inspectors. Those employees who successfully pass the examination will be available to assist the Section 8 program when necessary.*

*Implementation Date: March 31, 2004*

*Responsible Person: Willie Faye Hurd*

Reference No. 04-23

**Special Tests and Provisions - Housing Quality Standards Enforcement**  
(Prior Audit Issue - 03-17)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**

**Type of finding - Reportable Condition Control and Material Non-Compliance**

In accordance with 24 CFR sections 982.158(d) and 982.404, owners of units under housing assistance payment contracts that fail to meet housing quality standards (HQS) must be required to correct any life threatening HQS deficiencies within 24 hours after the inspection and all other HQS deficiencies within 30 calendar days or within a specified approved extension period. If the owner does not correct the cited HQS deficiencies within the specified correction period, housing assistance payments must be stopped beginning no later than the first of the month following the specified correction period or the housing assistance payment contract must be terminated. For family caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the Department of Housing and Community Affairs (DHCA) must take prompt and vigorous action to enforce the family obligations.

Questioned Cost: \$0

U.S. Department of Housing  
and Urban Development

For 14 of the 30 contracts selected for test work, the HQS inspections noted a non-life threatening deficiency and the documentation in the file showing the deficiency was corrected but not within 30-calendar days. For three additional files, there were notes in the file of an extension but no specific information as to the revised deadline. For all of the 17 deficiencies, the corrections were made before the end of the reporting period so no abatements were required.

Recommendation

The date of the correction is usually the date the local operator returns to the site to determine if the correction has been made. Often these visits are not within the 30-calendar days requirement although the work was done within the 30 calendar days. DHCA should amend their policy so the local operators inspect invoices for purchased materials or other documentation to determine if the correction was made within 30 calendar days when their return site visit is later than the initial 30-day requirement. Also, DHCA should create a standard extension notification letter to be sent to the owners and a copy kept in the respective files.

Management Response and Corrective Action Plan:

*DHCA will complement the Section 8 resources by cross training and certifying Weatherization Assistance Program monitors to perform Housing Quality Standards (HQS) inspections for the Section 8 program. When DHCA identifies deficiencies during HQS inspections, it formally notifies the landlord with standardized forms that the deficiencies must be corrected. Copies of the form are used by DHCA to track the status of a deficiency until it is satisfactorily corrected.*

*After the landlord corrects the deficiencies, the landlord notifies the DHCA that the deficiencies have been corrected. On behalf of DHCA, a local operator will conduct an on-site inspection to verify that the landlord corrected the deficiencies within the required timeframe. DHCA will develop a standard notice letter for landlords to request an extension when repairs cannot be completed within the required timeframe.*

*Implementation Date: February 29, 2004*

*Responsible Person: Willie Faye Hurd*

Reference No. 04-24

**Special Tests and Provisions - Utility Allowance Schedule**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**

**Type of finding - Material Weakness Control and Scope Limitation**

In accordance with 24 CFR sections 982.517, the Texas Department of Housing and Community Affairs (DHCA) must maintain an up-to-date utility allowance schedule. DHCA must review the utility rate data for each utility category each year and must adjust its utility allowance schedule if there had been a rate change of 10% or more for a utility category or fuel type since the last time the utility allowance schedule was revised. The most recent utility allowance survey certification was noted to be July 2002 for certain areas and August 2002 for other areas. DHCA did not obtain new surveys with which to compare the utility allowance schedule. Total July and August 2003 payments made on behalf of tenants that had revised rent calculations subsequent to June 30, 2002, were \$72,587.

Questioned Cost: \$72,587

U.S. Department of Housing  
and Urban Development

Recommendation

DHCA should obtain a new survey certification on an annual basis and adjust the utility allowance schedule for any changes greater than 10%.

Management Response and Corrective Action Plan:

*DHCA has entered into a technical assistance agreement with the Nelrod Company to review the present utility allowance schedules to assess whether there has been a change of 10 percent or more in a utility rate since the last time the schedule was revised in August 2002. DHCA will revise its utility allowance schedule to reflect the rate increase if there has been a rate change of 10 percent or more for a utility category or fuel type.*

*Implementation Date: March 15, 2004*

*Responsible Person: Willie Faye Hurd*

**HOUSING AND COMMUNITY AFFAIRS, DEPARTMENT OF**

Reference No. 04-25

**Allowable Costs/Cost Principles**

**Major Programs:**

- CFDA 14.239 - HOME Investment Partnerships Program
- CFDA 14.871 - Section 8 Housing Choice Vouchers
- CFDA 93.568 - Low-Income Home Energy Assistance

**Non-Major Programs:**

- CFDA 14.231 - Emergency Shelter Grants Program
- CFDA 81.042 - Weatherization Assistance for Low-Income Persons
- CFDA 93.569 - Community Services Block Grant

**Type of finding - Material Weakness Control and Material Non-Compliance**

Per OMB Circular A-87 section H - support of salaries and wages, the following standards are applicable:

- Where employees are expected to work solely on a single Federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:
  - 1) Reflect an after-the-fact distribution of the actual activity of each employee,
  - 2) Account for the total activity for which each employee is compensated,
  - 3) Prepared at least monthly and coincide with the pay period,
  - 4) Signed by the employee, and
  - 5) Budget estimates before the services are performed do not qualify as support for charges to Federal awards but may be used for interim purposes provided that at least quarterly, comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the Federal program.

Questioned Cost: \$439,842  
U.S. Department of Housing  
and Urban Development  
U.S. Department of Energy  
U.S. Department of Health and  
Human Services

The Department of Housing and Community Affairs (DHCA) allocated salaries and benefits to all their Federal grants during the fiscal year 2003 based on budget allocations. Secondly, for the major programs CFDA 14.239 and 93.568, certification of the time sheets was in compliance with OMB Circular A-87 requirements. However for the major program CFDA 14.871, certification of the time sheets was not in compliance with OMB A-87. Total amount of salaries and benefits for CFDA 14.871 was approximately \$439,842. Thirdly, DHCA's indirect cost rate is applied to a base of direct salaries and wages excluding all fringe benefits.

During November 2003, DCHA did adjust the allocated salaries, benefits, and indirect costs charged to its Federal grants for the fiscal year 2003 by comparing employee timesheets to budgeted amounts. These adjustments are included in the final Federal expenditure amounts in the accompanying schedule of Federal awards. The results are noted below:

<u>Federal Program</u>	<u>Reduction Needed in Amount Charged to the Federal Program</u>	<u>Additional Amount Charged to the Federal Program</u>
CFDA 14.231	\$ —	155,307
CFDA 14.239	—	138,112
CFDA 81.042	—	278,737
CFDA 93.568	(389,104)	—
CFDA 93.569	(183,052)	—
Total	\$ (572,156)	572,156

Recommendation

DHCA should adjust their budgeted salaries and benefits expenditures to actual based on timesheets submitted each reporting period. Once salary and benefit charges are adjusted to actual, then DHCA should calculate the amount of reimbursable indirect cost. Also DHCA should establish and implement a certification policy for the agency and ensure that all programs certify their timesheets in accordance with the policy.

Management Response and Corrective Action Plan:

*DHCA will comply with the provisions of OMB Circular A-87 by incorporating policies and procedures that will ensure an interface between its automated time keeping system and its payroll distribution system. The agency's procedures will also include certification measures for all federal programs. DHCA will periodically adjust salaries and benefits to actual and calculate indirect costs accordingly. These processes will be implemented in state fiscal year 2004.*

*Implementation Date: March 31, 2004*

*Responsible Person: David Cervantes*

**HOUSING AND COMMUNITY AFFAIRS, DEPARTMENT OF**

Reference No. 04-26

**Allowable Costs/Cost Principles**

**Major Programs:**

- CFDA 14.239 - HOME Investment Partnerships Program
- CFDA 14.871 - Section 8 Housing Choice Vouchers
- CFDA 93.568 - Low-Income Home Energy Assistance

**Non-Major Programs:**

- CFDA 14.231 - Emergency Shelter Grants Program
- CFDA 81.042 - Weatherization Assistance for Low-Income Persons
- CFDA 93.569 - Community Services Block Grant

**Type of finding - Material Non-Compliance**

The Department of Housing and Community Affairs (DHCA) indirect cost rate agreement with the U.S. Department of Health and Human Services (HHS) was discontinued effective August 31, 2000 when HHS was no longer the designated cognizant agency for DHCA. DHCA has continued to use the rate in effect prior to August 31, 2000 of 44% of a base of direct salaries and wages excluding all fringe benefits. Indirect costs charged to the grants for fiscal year 2003 are noted below:

Questioned Cost: \$1,422,826

U.S. Department of Housing and Urban Development

U.S. Department of Energy

U.S. Department of Health and Human Services

<u>Federal Program</u>	<u>Indirect Costs Charged to the Federal Program</u>
CFDA 14.231	\$ 51,708
CFDA 14.239	528,869
CFDA 14.871	154,419
CFDA 81.042	92,312
CFDA 93.568	308,531
CFDA 93.569	286,987
Total	\$ <u>1,422,826</u>

**Recommendation**

DHCA should contact HHS, the cognizant agent as of August 31, 2003, and obtain a current indirect cost rate agreement or amend the grant agreements for each program to include a stated indirect cost rate.

**Management Response and Corrective Action Plan:**

*DHCA has initiated discussions with the U.S. Department of Health and Human Services (HHS). The purpose of these discussions is to determine if HHS will officially serve as DHCA's cognizant agency. Should HHS agree, DHCA will pursue the issuance of a provisional 2004 indirect cost rate. In the event that HHS does not wish to issue a rate agreement, DHCA will contact other federal grantors to secure a rate. DHCA will adopt appropriate measures in state fiscal year 2004.*

Implementation Date: June 30, 2004

Responsible Person: David Cervantes

**Summary Schedule of Prior Audit Findings**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2003

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## Department of Housing and Community Affairs

Reference No. 03-12

**Special Tests and Provisions - Maximum Per Unit Subsidy****CFDA 14.239 - HOME Investment Partnerships Program****Type of finding - Non-Compliance**

In accordance with 24 C.F.R. section 92.250, the per unit investment of HOME funds may not exceed the Federal Housing Administration mortgage limits in Subsection 221(d)(3) of the National Housing Act, including any area-wide high cost exceptions approved by the Department of Housing and Urban Development. Participating jurisdictions are required to evaluate each housing project in accordance with guidelines that it adopts to ensure that the combination of Federal assistance to the project is not any more than is necessary to provide affordable housing.

Initial Year Written:	2002
Status:	Implemented
U.S. Department of Housing and Urban Development	

For one of the 40 projects selected for test work, we noted the project was awarded \$3,000 in excess of the maximum allowable award as a result of incorrectly establishing the original project award.

Corrective Action:

Corrective action was taken.

Reference No. 03-15

**Cash Management****CFDA 14.228 - Community Development Block Grants/State's Program****CFDA 14.239 - HOME Investment Partnerships Program****CFDA 93.568 - Low-Income Home Energy Assistance****Type of finding - Reportable Condition Control and Non-Compliance**

31 C.F.R., Chapter II, Part 205, Subpart A, Negotiation of Intergovernmental Agreements for Financing Federal Assistance Programs – Interest Liabilities on Intergovernmental Funds Transfers, establishes the regulations for implementing the Cash Management Improvement Act of 1990 (CMIA). Per section 205.8(c)(1), “if a State has actual or constructive knowledge, at any time, that a clearance pattern does not correspond to a program’s clearance activity, or if the program undergoes operational changes that may affect clearance activity, the State shall...(ii) Develop a new clearance pattern and certify that it corresponds to a program’s clearance activity.” In addition and per section 205.12(b), “a State will incur an interest liability to the Federal Government on a refund transaction of Federal Funds. A State interest liability will accrue from the day the refund is credited to a State account to the day the refund is either paid out for program purpose or credited to a Federal Government account. However, a State may adopt a transaction threshold not exceeding \$10,000, below which the State will not incur an interest liability on a refund transaction.”

Initial Year Written:	2002
Status:	Implemented
U.S. Department of Housing and Urban Development & U.S. Department of Health and Human Services	

Per the State of Texas CMIA agreement with the Department of Treasury, the LIHEAP, HOME and CDBG federal programs, which are subject to CMIA Subpart A provisions, utilize the pre-issuance funding technique, which does require a clearance pattern. Prior to fiscal year 2002, clearance patterns for these three programs were developed in fiscal year 2000. The old clearance patterns no longer accurately reflect clearance activity. TDHCA had insufficient policies in place to monitor the clearance patterns within the 5-year certification period required by section 205(d). Furthermore and as it relates to the HOME and CDBG programs, refunds greater than \$10,000 received by these two programs were excluded from the State of Texas 2002 CMIA report submitted to the Comptroller's office for fiscal year 2002. TDHCA had insufficient controls in place to ensure that programs report refunds greater than \$10,000 using the State of Texas 2002 CMIA report.

With regards to the HOME and CDBG programs, TDHCA was not able to calculate new clearance patterns for fiscal year 2002 prior to the submission of the State of Texas 2002 CMIA report. However, there were no questioned costs for HOME or CDBG as the recalculation of the clearance pattern did not result in an interest liability. Questioned costs for LIHEAP resulted from a discrepancy in the methodology used to calculate the new clearance pattern incorporated into the State of Texas 2002 CMIA report as well as the transmittal of the period 1 clearance pattern data using the State of Texas 2002 CMIA report. Using the interest rate for fiscal year 2002 of 1.89% (the 2002 average of the 13-week Treasury Bill equivalent yield as provided by the U.S. Department of Treasury – Financial Management Service), additional interest is approximately \$440.

24 C.F.R., Part 85, Subpart C, Post-Award Requirements, establishes regulations for disbursing program income and refunds before requesting additional cash payments. Per section 85.21(f)(2), "grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments." In regard to the CDBG program, during fiscal year 2002, it was noted that two separate program income logs were maintained for the CDBG program. One was maintained by TDHCA, and the other was maintained by the Office of Rural Community Affairs (ORCA). It was noted that no program income from ORCA's log had been distributed during fiscal year 2002. At August 31, 2002, this log reflected a balance of approximately \$490,167 which had been accumulating since February 13, 2002. Per review of the TDHCA's program income log, it was noted that program income receipts were recorded for the entire fiscal year 2002, and, until May 2002, program income was generally disbursed once a month. At August 31, 2002, this log reflected a balance of approximately \$83,657. Similarly, two sets of records were maintained for refunds received in relation to the CDBG program during fiscal year 2002. Per review of the log maintained by ORCA, there was approximately \$25,220 of refunds accumulated at August 31, 2002. Per review of the log maintained by TDHCA, there was approximately \$65,300 of refunds accumulated at August 31, 2002. The program administration of the CDBG program was transferred from TDHCA to ORCA during fiscal year 2002. However, the financial administration of the CDBG program was administered solely by TDHCA during fiscal year 2002.

There are insufficient controls in place to ensure that all program income and refund receipts are disbursed prior to the request of additional Federal funds. Questioned costs result from interest earned on program income and refund receipts accumulated and not disbursed or disbursed subsequent to requesting additional Federal funds. Using the interest rate for fiscal year 2002 of 1.89% (the 2002 average of the 13-week Treasury Bill equivalent yield as provided by the U.S. Department of Treasury – Financial Management Service), additional interest is approximately \$4,000.

Corrective Action:

Corrective action was taken.

Reference No. 03-16

**Eligibility****CFDA 14.871 - Section 8 Housing Choice Vouchers****Type of finding - Non-Compliance**

As a condition of admission or continued occupancy, 24 C.F.R. sections 5.230, 5.609 and 982.516 require the tenant and other family members to provide necessary information, documentation, and releases for the Public Housing Authority (PHA) to verify income eligibility. For both family income examinations and reexaminations, 24 C.F.R. section 982.516) requires PHA to obtain and document in the family file, third party verification of: 1) reported family annual income, 2) the value of assets, 3) expenses related to deductions from annual income, and 4) other factors that affect the determination of adjusted income or income-based rent. Using the documentation from third party verification, 24 C.F.R. part 5 subpart F (24 C.F.R. section 5.601 et seq.) (24 C.F.R. sections 982.201, 982.515 and 982.516) requires the PHA to determine income eligibility and calculate the tenant's rent payment. Using the documentation from third party verification, 24 C.F.R. section 982.516 requires the PHA to reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary. Our review of the compliance with the eligibility requirements disclosed the following:

Initial Year Written:	2002
Status:	Partially Implemented
U.S. Department of Housing and Urban Development	

- For 1 of the 40 contracts selected for test work, \$200 of monthly child support was not included in the calculation of the tenant's income. This exclusion resulted in the overpayment of \$540 on behalf of the tenant.
- For 1 of the 40 contracts selected for test work, the utility allowance was calculated incorrectly. This error resulted in the overpayment of \$161 on behalf of the tenant.
- For 1 of the 40 contracts selected for test work, we noted there had been an adjustment to a tenant's housing assistance payment, but the adjustment was not entered into Genesis, the system used to account for housing assistance payments. This incorrect accounting resulted in a total overpayment of \$1,984 on behalf of the tenant and resulted as there is currently not a management review process in place to ensure that adjustments to housing assistance payments are entered into Genesis.
- For 1 of the 40 contracts selected for test work, an incorrect effective date was erroneously recorded in Genesis in fiscal year 2001. In the current year when the contract was renewed, Genesis automatically updated the effective date to an incorrect date. The incorrect data resulted in an overpayment in the amount of \$63 on behalf of the tenant.

According to the United States Department of Housing and Urban Development *Housing Choice Voucher Program Guidebook*, eligibility for federal housing assistance is limited to United States citizens and applicants who have eligible immigration status. Non-citizens claiming eligible immigration status must provide Immigration and Naturalization Services documents verifying status. Families that include members who are citizens or have eligible immigration status and members who do not have eligible immigrations status (or elect not to state that they have eligibility status) are referred to as "mixed families". A mixed family is eligible for prorated assistance.

For one of the 40 contracts selected for test work, the corresponding file did not contain documentation of United States citizenship or eligible immigration status for any members of the household. Aid awarded was \$279.

Corrective Action:

This finding was reissued as current year reference number: 04-20.

Reference No. 03-17

**Special Tests and Provisions - Housing Quality Standards Enforcement**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**

**Type of finding - Non-Compliance**

In accordance with 24 C.F.R. sections 982.158(d) and 982.404, owners of units under housing assistance payment contracts that fail to meet housing quality standards must be required to correct any life threatening housing quality standards (HQS) deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, housing assistance payments must be stopped beginning no later than the first of the month following the specified correction period or the housing assistance payment contract must be terminated.

Initial Year Written:	2002
Status:	Partially Implemented
U.S. Department of Housing and Urban Development	

For 2 of the 40 contracts selected for test work, the HQS inspections noted a life threatening deficiency, and there was no documentation supporting the correction of the deficiencies within 24 hours of the inspections. Texas Department of Housing and Community Affairs (TDHCA) regional coordinators travel throughout the state of Texas to perform quality control inspections. Once a regional coordinator returns to the office in Austin, a letter is prepared and sent to the owner of a unit that has failed the inspection, which is usually the day after the inspection. The owner is provided 24 hours from the date of the letter to correct any life threatening deficiencies. A regional coordinator may verbally communicate deficiencies and correction requirements to the unit owner at the time of the inspection. However, there is no formal documentation maintained to support this communication. Housing assistance payments should be discontinued if the life threatening corrections are not made within the required timeframe. Housing assistance payments subsequent to the inspection date were \$2,661 during fiscal year 2002.

Two additional contracts selected for test work, there was no documentation supporting the correction of the non-life threatening deficiencies by the unit owner within 30 calendar days or within a specified approved extension. Documentation supporting the correction of the deficiencies was dated subsequent to the deadline. Housing assistance payments should be discontinued if the non-life threatening corrections are not made within the required timeframe. Housing assistance payments subsequent to the inspection date were \$1,134 during fiscal year 2002.

Corrective Action:

This finding was reissued as current year reference number: 04-23.

Reference No. 03-18

**Special Tests and Provisions - Housing Quality Standards Inspections****CFDA 14.871 - Section 8 Housing Choice Vouchers****Type of finding - Non-Compliance**

24 C.F.R. sections 982.159(d) and 982.405(b) require the inspection and reinspection of a unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS). A unit inspection report must be prepared as a result of the inspection process. The Section 8 Choice Voucher program utilizes the *Form HUD-52580-A, Inspection Form for the Housing Choice Voucher Program* (Form HUD-52580-A). In order to properly perform an inspection each applicable area of the form should be completed, and the inspections should be completed within three months of the inspection. Our review of the inspection process disclosed the following:

Initial Year Written:	2002
Status:	Partially Implemented
U.S. Department of Housing and Urban Development	

- For 7 of the 30 inspection forms, the building exterior, heating and plumbing, and general health and safety portions of the form were not completed.
- For 1 of 30 inspection forms, the building exterior and general health and safety portions of the form were not completed. Housing assistance payments subsequent to the inspection dates were \$10,048 during fiscal year 2002.
- For 7 of the 30 inspections selected, the inspections were performed over three months after the inspection. Housing assistance payments subsequent to the inspection deadline were \$6,191 during fiscal year 2002.

Corrective Action:

This finding was reissued as current year reference number: 04-22.

*Texas Department of Housing and Community Affairs*

*Status of Prior Audit Issues*

# *Texas Department of Housing and Community Affairs - Summary Report of Prior Audit Issues (except those prior audit issues previously reported as implemented or otherwise resolved)*

<i>Ref. #</i>	<i>Report Date Auditors</i>	<i>Report Name Audit Scope</i>	<i>Status</i>		<i>Target Date</i>
			<i>Codes*</i>	<i>Date</i>	
<b>187</b>	09/19/00 HUD	Section 8 Management Review	Dx	01/03/01	
		Review conducted week of August 7, 2000 - To ensure compliance with statutory and regulatory requirements.	Dx	03/04/01	
	Dx		04/18/01	NR	
	Dx		11/28/01	NR	
	Pxx		04/25/02	08/31/02	
	Px		07/31/02	12/31/02	
	Px		08/30/02	12/31/02	
	Px		10/25/02	12/31/02	
	Dx		12/12/02	NR	
	Px		05/06/03	NR	
	Pxx		06/30/03	NR	
	Px		09/17/03	NR	
	Dx	11/21/03	NR		
Ix	01/30/04	---			
Pxx	03/11/04	03/31/05			
<i>Division:</i> Community Affairs - Section 8					
<i>Issue:</i> Finding No. 17: Contract of Participation and Establishment of Escrow Account - Documentation could not Be Provided to Support Implementation of a Family Self-Sufficiency (FSS) Program (Repeat Finding).					
<i>Status:</i> 03/11/04 - While the Family Self-Sufficiency Plan has been accepted by HUD, the issue is not considered implemented until the plan has been put into place; currently anticipated to be March 2005.					
01/30/04 - The Department's Family Self-Sufficiency (FSS) Program Action Plan for the Houston area submitted to the Fort Worth HUD Office on November 19, 2003 was approved by HUD letter dated January 12, 2004. The approved timetable for program implementation is April 1, 2004 through March 31, 2005. We anticipate implementing FSS contracts no later than March 2005.					
9/17/03 – As of 7/10/03 HUD approved the Department's request for an exception to the FSS program outside the Houston area.					

Ref. #	Report Date Auditors	Report Name Audit Scope	Status		Target
			Codes*	Date	Date
268	02/12/02	Compliance with Requirements & IC Over Compliance - A-133.	Px	04/22/02	08/01/02
	KPMG	Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	Px	07/31/02	10/31/02
<b>Division:</b> Portfolio Management & Compliance			Px	10/02/02	NR
<b>Issue:</b> There is a lack of documentation to support soft costs incurred by subrecipients. Known questioned costs - \$29,400. Estimated questioned costs - \$2,314,574.			Px	10/25/02	NR
Pursuant to HUD letter dated March 26, 2004, the Department must review all subrecipient and consultant draws for related 'soft' or project delivery costs for fiscal years 1999, 2000, and 2001 to ensure all draws are adequately supported and provide HUD with a recapitulation of these results.			Px	01/31/03	NR
<b>Status:</b> 04/28/04 - Pursuant to telephone conference held April 28, 2004 between HUD and TDHCA, management reports they will respond to HUD by July 1, 2004. At that time, management will submit a report of the number of contracts from 1999-2001 that requested soft cost reimbursement. Upon review of the submitted documentation and response, HUD will notify TDHCA of the status of the finding.			Ixx	02/24/03	07/01/04
04/22/04 - During a meeting with HUD officials on March 20, 2003, HUD agreed to accept the Statewide Single Audit Report issued by KPMG for Fiscal Year 2002 where KPMG noted that corrective action for this issue was complete, subject to review for the soft cost finding. The Department was unaware that HUD did not consider this issue resolved until receipt of HUD letter dated March 26, 2004, see below.			Pxx	03/26/04	
The Department will review available documentation to determine an appropriate course of action to respond to this finding. However, documentation requested by HUD is dated from 1999 through 2001. During that time period, the Department did not require the submission of support documentation for project related soft costs to the Department. This was reviewed on-site during Technical Assistance and monitoring visits and copies were included in monitoring folders. Therefore, it will not be possible to fully implement corrective actions required by HUD. The Department is exploring alternate methods of addressing this issue.			Dx	04/22/04	
03/26/04 - Per HUD letter dated 3/26/04, this audit issue is still open and corrective actions are required.			Ix	04/28/04	
3/31/03 - KPMG reported in its FY 2002 Statewide Single Audit Report, dated February 24, 2003, that corrective action on this issue has been taken by the Department. The Department will forward a copy of the Single Audit results to HUD for acknowledgement (HUD agreed to accept the written KPMG response/report, subject to review, in a meeting with HUD officials on March 20, 2003) no later than April 21, 2003.					

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
269	02/12/02	Compliance with Requirements & IC Over Compliance - A-133.	Ix	04/22/02	
	KPMG	Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	Ixx	02/24/03	
			Pxx	03/26/04	
			Dx	04/22/04	
			Ix	04/28/04	

**Division:** HOME

**Issue:** TDHCA does not have adequate internal controls in place over monitoring the subrecipients of the HOME Program. Pursuant to HUD letter dated March 26, 2004, the Department must address the variance between the files claimed to be initially closed and the files actually closed. The Department must also complete reviews for the 185 contracts referred to in the management response contained in the 2001 audit report and obtain all required information and documentation, and enter or reenter all applicable data in IDIS as well as deobligate all remaining unused funds before a Certificate of Contract Approval can be issued and approved by the HOME administrative staff.

**Status:** 04/28/04 - Pursuant to telephone conference held April 28, 2004 between HUD and TDHCA, management reports they will respond to HUD by July 1, 2004. At that time, management will submit a report that includes the current status of the 185 contracts referenced in the finding, a copy of the Certificate of Completion (COC) previously used by TDHCA and its purpose, and a copy of correspondence from KPMG indicating their comfort level with the review (including review of support documentation) performed during on-site monitoring visits related to soft costs. Upon review of the submitted documentation and response, HUD will notify TDHCA of the status of the finding.

04/22/04 - HUD letter dated February 2004 cleared the subrecipient monitoring findings included in the November 2001 monitoring report. The Department was unaware that HUD did not consider this issue resolved until receipt of HUD letter dated March 26, 2004, see below.

Action Plan - The Department will review available documentation, including documentation of previous correspondence initiated from employees responsible for addressing this finding, to determine an appropriate course of action to respond to this finding.

Employees previously involved in addressing these issues are no longer with the Department. The monitoring process has changed substantially from that time. The report that included the 185 HOME contract administrators has not been located and cannot be recreated from the database due to additional entries and changes to the system since that time. Further, PM&C has identified contracts that should be deobligated but will not actually deobligate funds until projects can be funded from these funds are identified (results from time constraints imposed by HUD from time of deobligation to reobligation).

03/26/04 - Per HUD letter dated 3/26/04, this audit issue is still open and corrective actions are required.

2/24/03 - Corrective action taken per KPMG during review of Federal Portion of Statewide Single Audit Report for the year ended August 31, 2002.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
306	06/30/03	Selected Assistance Programs at the Department	Px	06/25/03	01/01/04
	SAO	The Community Affairs programs' activities at the Department and five subgrantees during fiscal years 2001/2002.	Px	09/17/03	10/31/03
			Px	11/21/03	02/29/04
			Px	02/24/04	03/31/04
			Ix	04/22/04	

**Division:** Community Affairs - WAP

**Issue:** Chapter 1-A: The Department did not ensure that subgrantees (1) provided weatherization services to only eligible multi-family dwellings, (2) did not exceed the maximum they can spend to weatherize a multi-family dwelling, and (3) fulfilled a variety of other WAP multi-family requirements, including the need to (3a) have applicants fully complete or sign WAP applications, (3b) for authorized individuals to sign final inspection forms, (3c) for utility billing histories to be obtained with only appropriate authorization, and (3d) for contracts with the owners of two multi-family dwellings specify that the owners did not inappropriately raise their rents.

Recommendation - The Department should (1) determine the multi-family dwellings that received WAP services in fiscal years 2001 and 2002 that were not eligible for these services and recover the amounts, (2) develop, communicate, and enforce policies and procedures to ensure (2a) each building has at least the required percentage of income-eligible units, (2b) subgrantees do not spend more than the maximum amounts allowable per unit, and (2c) subgrantees have appropriately ensured that, before the weatherization work begins, that the applicant and the multi-family dwelling unit are eligible and required documentation is completed, (3) ensure that multi-family dwelling owners provide the required assurance that rent does not increase as a result of receiving weatherization services, and (4) require that WAP subgrantees provide the Department with monthly status updates on (4a) how much they have spent from all federal and state sources to weatherize each multi-family dwelling and (4b) what percent of the work on each dwelling has been finished in order to track the amount of program funds that have been spent to weatherize multi-family and single-family dwellings.

**Status:** 04/24/04 - The Department released a multi-family issuance and completed addendums to the monitoring instruments for WAP and CEAP. The Department completed a review of multi-family units with no additional allowed costs. All 16 subrecipients providing weatherization services to multi-family units have been trained on use of the EASY III energy audit. All action completed on March 10, 2004.

02/24/04 - Multi-family Issuance dated October 31, 2003 on weatherizing multi-family buildings has been issued to the WAP subrecipients. Also, the monitoring instrument was modified to incorporate the guidance provided in the Multi-family Issuance and this instrument has been implemented for use by staff.

A review was completed to address a randomly selected 10% of units determined income eligible for each building weatherized to review income documentation for eligibility. No other buildings were found ineligible and no other disallowed costs were determined. All disallowed costs determined at GETCAP have been reimbursed to the Department.

Bugs detected in the Easy Audit modification have been corrected, and training of 13 out of 15 subrecipients that weatherize multi-family housing has occurred. A target date extension of 3/31/04 has been established to complete training for the remaining two subrecipients.

11/21/03 - A Multi-family Issuance dated October 31, 2003 on weatherizing multi-family structures to provide additional guidance on weatherizing multi-family buildings has been issued to the WAP Subrecipients. Additionally, the monitoring instrument has been modified to incorporate issues addressed in the Multifamily Issuance and is in the process of management review.

Energy Assistance is in the process of reviewing the 10% randomly selected sample referred to in the 09/17/03 status update to determine income eligibility for each building weatherized. Completion of the review is pending receipt of complete supporting documentation for four of the WAP subrecipients.

Modifications to Easy Audit to track multi-family units expenditures were developed. Development bugs were detected during joint testing/training meetings, which are in the process of being corrected. The target date has been extended to 2/29/04 to allow time for corrections to be made to Easy Audit, the related necessary testing of Easy Audit, and time for necessary training to the affected subrecipients on the enhanced Easy Audit software.

<i>Ref. #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>	<i>Status</i>		<i>Target</i> <i>Date</i>
			<i>Codes*</i>	<i>Date</i>	

While the Department appreciates the value of expenditure information by building to allow for on-going assessment of performance, it has decided that there is not sufficient benefit to warrant enhancements to Easy Audit and the Department's systems to implement the portion of the SAO recommendations referred to as (4a) and (4b) above. Although the systems currently capture the amounts spent from all funding sources to weatherize each multifamily unit, which suffices for Federal compliance purposes, the systems do not capture amounts spent from all funding sources to weatherize each multifamily building or single family residence. Compliance requirements relating to this type of data, such as maximum expenditures per building, are verified in connection with field monitoring visits. The Department can measure performance based on overall expenditure rates and number of units completed.

09/17/03 - An addendum to the monitoring instrument is in place to record all documents reviewed.

EA staff have identified all multifamily projects/buildings weatherized in SFY 2000, 2001, & 2002 required to meet the 66% rule. Energy Assistance has randomly selected 10% of the units determined income eligible for each building weatherized to review the income documentation maintained in the client files and is in the process of collecting the documentation from the applicable Agencies. Should any units be determined ineligible, the 10% sample will be expanded and the cost of any units disallowed will require reimbursement. The income verification should be completed in October, 2003.

Expenditures on multi-family units will be tracked by modification to the Easy Audit by a web-based application.

07/30/03 - TDHCA is in the process of analyzing the conditions noted by the SAO and will recoup all WAP funds determined to be disallowed. Additionally, (1) modifications to the monitoring instrument will require identification of all onsite documentation reviewed, which must be complete and found in client files at the time of the on-site review, (2) documentation subject to monitoring will be copied and returned to TDHCA for quality control review prior to developing the monitoring report, and (3) modification to the monitoring instrument and a new WAP Policy Issuance will ensure subgrantees do not exceed the maximum cost per unit.

06/25/03 - The Department agrees with and will implement the recommendations and is currently in in the process of modifying the EASY Audit, anticipated for completion by 10/01/03, which will address many of these issues. The Department is also developing an issuance, which has been provided to subgrantees for review and comment, on weatherizing multi-family structures to provide additional guidance on weatherizing multi-family buildings.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
314	06/30/03	Selected Assistance Programs at the Department	Px	06/25/03	10/01/03
	SAO	The Community Affairs programs' activities at the Department and five subgrantees during fiscal years 2001/2002.	Px	09/17/03	01/31/04
			Px	11/21/03	02/29/04
			Px	02/24/04	03/31/04
			Ix	04/22/04	

**Division:** Community Affairs - WAP

**Issue:** Chapter 3-A: The Department requires its WAP subgrantees to use a specific energy audit software called Easy Audit, but it has not made cost-effective decisions regarding this software. The software cost \$232,000 to develop and another \$240,000 to upgrade and the Department elected to require the use of this software rather than an energy audit software application that the U.S. Department of Energy (DOE) developed and makes available to states at no charge. Additionally, the Department does not own the source code for this software effectively limiting itself to a sole-source contract for any future upgrades to this software.

Easy Audit also has weaknesses that limit its reliability and effectiveness and could lead to incorrect decisions regarding program eligibility determination. For example: (1) DOE approved the Department's use of Easy Audit, but with several restrictions that limit the use of Easy Audit to single-family dwellings and small multi-family dwellings. (2) DOE has identified several inaccuracies in the way Easy Audit computes several values, which could lead to incorrect decisions regarding which weatherization services, if any, should be performed. (3) The audit also identified other vulnerabilities and it is unclear whether the Easy Audit upgrade will address these weaknesses. These weakness include: (3A) The Department cannot ensure that the dwellings the subgrantees weatherized were eligible to receive weatherization services because (3Ai) electronic versions of the energy audit files that Easy Audit produces are not always accessible and (3Aii) the hard copies of these files do not display all the information necessary to determine which weatherization measures to provide, and (3B) Easy Audit uses default numbers for some costs and efficiency ratios that could lead to incorrect decisions regarding program eligibility determination and whether to perform certain weatherization services.

Recommendation - The Department should conduct and document a thorough cost-benefit analysis to determine which energy audit software – the free federal software or Easy Audit – is the best and most cost-effective energy audit software to use in the WAP program. This analysis should consider the costs associated with the addressing all federal restrictions on the Department's use of Easy Audit, as well as (1) upgrading Easy Audit to ensure that (1a) electronic energy audit files are accessible or (1b) the hard copy printouts display enough of the data that subgrantees input so that monitors can verify that subgrantees input the right prices and costs into the software, (2) removing cost and efficiency ratio default numbers from Easy Audit, and (3) adding edit checks to Easy Audit to verify that the cost and efficiency ratios entered are within acceptable ranges.

**Status:** 04/22/04 - As of March 10, 2004, training has been completed for all 16 subrecipients providing multi-family weatherization services.

02/24/04 - Technical bugs detected in the Easy Audit modification have been corrected, and training of 13 out of 15 subrecipients that weatherize multi-family housing has occurred. A target date extension of 3/31/04 has been established to complete training for the remaining two subrecipients.

11/21/03 - Dual-purpose testing/training on the new EASY Audit was conducted by/for staff and four subrecipients the week of September 22, 2003. Technical bugs detected during the testing are being corrected. The target date has been extended to 2/29/04 to allow time for corrections to be made to Easy Audit, the related necessary testing of Easy Audit, and time for necessary training to the affected subrecipients on the enhanced Easy Audit software.

11/21/03 - Dual-purpose testing/training on the new EASY Audit was conducted by/for staff and four subrecipients the week of September 22, 2003. Technical bugs detected during the testing are being corrected. The target date has been extended to 2/29/04 to allow time for corrections to be made to Easy Audit, the related necessary testing of Easy Audit, and time for necessary training to the affected subrecipients on the enhanced Easy Audit software.

09/17/03 - The CRN contract for the EASY audit modification has been amended to track actual cost allocated on the BWR (Building Weatherization Report), prevent the exceeding of maximum amounts, and show when leveraged funds are used in conjunction with DOE funds to install a measure.

<i>Ref. #</i>	<i>Report Date</i> <i>Auditors</i>	<i>Report Name</i> <i>Audit Scope</i>	<i>Status</i>		<i>Target</i>
			<i>Codes*</i>	<i>Date</i>	<i>Date</i>

07/30/03 - The proposed modification of EASY Audit to a web based format will resolve the issue of the existence of audits and the maintenance of a back up disc, access to audit files, and display of audit data.

06/25/03 - The Department believes that it conducted a thorough cost-benefit analysis to determine which energy audit software was the best and most cost-effective energy audit software to use in the WAP program. In 1997, EASY Audit II was approved for multi-family and mobile home weatherization. The Department is currently working to convert EASY Audit II to EASY Audit III, which will be a web-based application and will address the audit recommendations relating to client application and eligibility determination process for single- and multi-family units, tracking expenditures, removing input defaults, and installing acceptable ranges of response for efficiency of appliances and acceptable R-values for various measures.

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
315	06/30/03	Selected Assistance Programs at the Department	Px	06/25/03	01/01/04
	SAO	The Community Affairs programs' activities at the Department and five subgrantees during fiscal years 2001/2002.	Px	09/17/03	01/31/04
			Px	11/24/03	01/31/04
			Px	02/26/04	04/30/04
			lx	04/23/04	

**Division:** Multiple

**Issue:** Chapter 3-B: IT weaknesses limit the Department's ability to rely on the data in its information systems. Some contract signatures are missing from contracts stored electronically, the Department lacks an alternative site agreement, information is not consistently updated in certain information systems (accounting system - CSAS vs. program system - Genesis), and information in the Emergency Shelter Grant Program's monitoring tracking system is not accurate (data erroneously specified that the Department had conducted four ESGP monitoring visits that it had not actually conducted).

Recommendation - The Department should (1) ensure that it has valid contracts with subgrantees by restoring missing electronic contract signatures or by obtaining ratifying signatures for its current contracts, monitor the maintenance of these signatures and ensure that this problem will not recur in the new central database system and test the maintenance of these signatures before the new central database system is considered complete, (2) enter into an alternative site agreement through which it would have the necessary hardware on which to run its applications in the event of a disaster, and (3) ensure that decisions are made based on accurate information, e.g. the Department should duplicate in Genesis any changes it makes in CSAS, implement a reconciliation process between Genesis and CSAS and ensure that the information in its ESGP monitoring tracking system is accurate.

**Status:** RECOMMENDATION (1) - Electronic Signatures  
04/23/04 - ISD inserted marker records to replace blank signatures for non-active contracts. As reported on 2/26/04, ISD has confirmed active contracts have signatures. ISD provided CA with before and after reports that show contracts with blank signature records that were replaced by marker records. To ensure that this problem does not continue to occur, ISD and CA staff will monitor on an ongoing basis reports that will show any new occurrences of blank signatures.

02/26/04 - ISD has confirmed all active contracts have signatures based on the filter report. ISD is working with CA to determine when the older, non-active contracts will be ready for inserting marker records to completely resolve this issue. Target date for completion: March 31, 2003.

11/24/03 - ISD has met with EA and CS and is currently developing a filter report that will identify active contracts that have no electronic signature in place. ISD anticipates a 12/5/03 target date. EA and CS will contact those Subrecipients with missing signatures to obtain signatures as required. EA and CS anticipate a 1/31/04 target date for completion.

For older, non-active contracts, ISD will insert a marker record to note that it is a closed contract that has been noted to have a missing signature (ISD anticipates a 1/31/04 target date). It was decided that it would not be practical to try to obtain signatures for closed contracts.

RECOMMENDATION (2) - Alternative Site Agreement  
04/23/04 - ISD entered into an alternate site agreement with Northrop Grumman on March 15, 2004. The agreement runs through August 31, 2006.

02/26/04 - ISD researched other more cost effective ways to address alternative site agreement requirements without requesting a waiver; however, efforts were unsuccessful. ISD is in the process of obtaining a revised quote from Northrop Grumman and implementation of the alternative site agreement is expected no later than March 14, 2004.

11/24/03 - ISD is reassessing its waiver request from WTDROC State Data Center (09/17/03 status). ISD has received a quote from Northrop Grumman on the use of the state data center. ISD will make a decision on whether to go forward with the waiver request or to use the state data center by January 10, 2004. This issue should be fully resolved by February 29, 2004.

09/17/03 - ISD is considering a waiver to exempt the agency from using the West Texas Disaster Recovery Operations Center (WTDROC). WTDROC is the mandated off-site disaster recovery solution, managed by Northrop Grumman. TDHCA is eligible for this waiver because WTDROC costs are prohibitive. We are in the process of arranging to use the Austin Disaster Recovery Operations Center, also managed by

<u>Ref. #</u>	<u>Report Date</u> <u>Auditors</u>	<u>Report Name</u> <u>Audit Scope</u>	<u>Status</u> <u>Codes*</u>	<u>Target</u> <u>Date</u>
		Northrop Grumman. This is a cold site solution for use by state agencies and is within our budget requirements. The ADROC solution does not include hardware; however, we are currently researching hardware insurance plan options that will provide specified hardware and delivery to the cold site within a set time period. Once we have completed these actions and have addressed some logistical considerations, we believe that the agency will be in compliance.		
	06/25/03	The Department is in general agreement with and will implement the recommendations where reasonable; however, due to significant decreases in TDHCA's capital budget for fiscal years 2004-2005, the costs of having a dedicated, alternative site agreement are prohibitive. Despite the capital budget reduction, TDHCA has set aside \$15,000 each year to increase its disaster preparedness for fiscal years 2004-2005, including the agency's plans to acquire, at a minimum, an insurance policy to ensure a set turnaround time on selected network hardware. As an additional compensating control, TDHCA also maintains a business continuity plan in preparation for the effects of a disaster and to comply with TAC, Title 1, Section 202.6. Additionally, using its offsite backup tapes, TDHCA has the ability to restore mission-critical systems, according to the priority sequence defined in the agency business continuity plan. The agency will continue to explore options for securing an alternative site agreement, as well as identifying funding for such an agreement; however, it is possible that TDHCA will not be able to fully satisfy this audit finding in the next biennium.		
		RECOMMENDATION (3) - Ensure Accurate Information		
	04/22/04	Community Services has completed the reconciliation process between Genesis and CSAS for CSBG for the first quarter of FY 2004.		
	02/26/04	All requested reports have been developed and provided by ISD to CA to enable access to financial information that will assist with reconciliation to CSAS. Community Services has been provided access to the Genesis Accounting Reporting System. Information Systems is currently in the final phase of providing Community Services with access to the CSAS Accounting Reporting System. It is expected that access to CSAS should be complete by 03/03/04. Once this process is complete, Community Services will immediately begin the reconciliation process between Genesis and CSAS beginning with the first quarter for calendar 2004.		
	11/24/03:	ISD has met with and educated all relevant parties regarding the automated interface available between CSAS and Genesis. Currently, only CSBG interfaces with Genesis; the rest of the programs are manual. It has been determined that ISD will develop reports to assist with the reconciliation process when they receive the reporting requirements from Accounting and CA. Accounting has held a meeting with CA and developed a reconciliation process and also identified reporting requirements. The written reconciliation process and reporting requirements will be forwarded to ISD. Target date for implementation of the reconciliation process: January 31, 2004.		
		Community Services has implemented its electronic ESGP monitoring tracking system. Ongoing quality controls is being performed by the Project Manager for Monitoring/Evaluation and ESGP program offices.		
	09/17/03	Community Services is updating its electronic ESGP monitoring tracking system to eliminate inaccurate information regarding monitoring visits.		
	06/25/03	The Department will take steps to ensure that the Client Service Accounting System is in agreement with and reconciled to the Genesis Energy Assistance/Community Services contract and payment systems, status updates have not provided any further information in this respect.		

Ref. #	<u>Report Date</u>	<u>Report Name</u>	<u>Status</u>		<u>Target</u>
	<u>Auditors</u>	<u>Audit Scope</u>	<u>Codes*</u>	<u>Date</u>	<u>Date</u>
330	08/29/03	Construction of Housing Tax Credit Developments	Px	08/29/03	
	IA	Controls in place prior to the effective date of the Department's reorganization, March 1, 2003, over the construction of HTC developments providing reasonable assurance that the developments actually delivered under the program conform to the specifications relied upon by the Board in its award decisions.	Px	11/25/03	03/01/04
			Px	02/26/04	03/31/04
			Px	04/28/04	09/24/04

**Division:** Portfolio Management & Compliance

**Issue:** All requirements and information needs relating to the tax credit program, especially the construction function, should be thoroughly identified and considered in the requirement definition of the fully integrated management information system currently in development by the Department. All tax credit related functional areas, including housing tax credit production, underwriting, compliance and asset management staff should work together with the development team to ensure that the system's requirements adequately define all functional and informational needs of the program. Informational needs of other users such as other program areas that may contract with the same parties that apply for or receive tax credits, executive management, the Board and oversight agencies, including the U.S. Treasury and Internal Revenue Service, should also be considered in the requirement definition.

**Status:** 04/28/04 - The multifamily module design specifications were delivered by AIMS, Inc., on April 19, 2004. Module development will begin after functional review sessions have been completed, and Multifamily, Real Estate Analysis, and Compliance staff have provided written approval of the specifications. Because production-related work associated with the tax credit cycle is the agency's priority, the functional design review sessions are scheduled to begin August 13, 2004. To allow for changes that will result from the functional design review, ISD has targeted September 24, 2004 for final sign-off on multifamily module specifications.

02/26/04 - Information Services Division has considered in-house user requirements and all listed external parties were considered at least to a limited extent based on best assessment by staff for post award criteria. The multifamily requirements and design are expected to be completed by ISD by 3/31/04.

11/21/03 - The Department decided in October 2003 that the best strategy was to develop a multifamily module for the Central Database rather than the HTC module referred to in the 08/29/03 status. The multifamily requirements and design (see 08/29/03 status) are expected to be completed by 3/31/04.

08/29/03 - The Compliance Monitoring Tracking System, backed by TDHCA's Central Database, now handles the long-term monitoring requirements for the HTC portfolio, including automated compliance testing of online compliance report information submitted on a regular schedule or prior to an onsite visit. Long-term monitoring requirements are initiated after application, award, and other setup processes have been completed. On August 4, 2003, the Central Database Project Steering Committee prioritized remaining Central Database modules and set the HTC module, the Department's long-term solution, as the next module to be developed after the TDHCA Contract System (for HOME, HTF, and Preservation contracts) is rolled out in October 2003. The Department's tax credit related functional areas and Information Systems staff will work together to ensure that the system's requirements and design for the HTC module meets the needs of the tax credits program. The Department's goal is to have a fully integrated and functional HTC system in place for the 2005 application cycle.

*Texas Department of Housing and Community Affairs*

*Section 8 Family Self Sufficiency Program  
Action Plan*

**TEXAS DEPARTMENT OF HOUSING  
AND  
COMMUNITY AFFAIRS**

**SECTION 8 FAMILY SELF-SUFFICIENCY  
PROGRAM**

**ACTION PLAN  
(FSSP)**

**OCTOBER 2003**

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# **Texas Department of Housing and Community Affairs Family Self-Sufficiency Program Action Plan**

## **I. INTRODUCTION**

The Texas Department of Housing and Community Affairs (the Department), requested and was granted by HUD, an exception to the Section 8 Family Self-Sufficiency Program (FSSP) outside the Houston area. The Department made this request due to limited resources available within the Department's Section 8 service area. Additionally, the Department requested that the FSSP in the Brazoria County area serve as a model to fulfill the FSSP requirement for the three (3) service areas, i.e., Houston, Fort Worth and San Antonio.

The FSSP, a voluntary five-year program with a two year extension, is designed with the purpose of aiding Section 8 families to gain the necessary training and/or education to be adequately prepared to make the transition from public assistance to economic self-sufficiency. The program provides case management to help families identify and obtain services already existing in the community. The program also offers training in self esteem, job readiness, parenting skills, financial management, and household management. The overall objective of the FSSP is to address the symptoms of poverty and to empower individuals to take control of their lives by becoming independent, productive members of their communities.

The Department's goal is to implement a comprehensive FSSP in the Brazoria County area that will provide Section 8 families the support and resources needed to become fully self sufficient and independent of government assistance. The Department will combine its efforts with private and public sectors to provide child care, transportation, education, job training, counseling, ongoing monitoring, and other services and resources to ensure that FSSP participants can become self-sufficient.

## II. FAMILY DEMOGRAPHICS

The Department currently has a budget authority for 2130 families in its Section 8 Housing Choice Voucher Program. The Department is assigned 42 FSSP vouchers in the Houston area. The following chart provides a profile of families currently being assisted by the Department.

### FAMILY SELF SUFFICIENCY FAMILY DEMOGRAPHICS 2003 for BRAZORIA COUNTY

#### Age Distribution

Age	Under 30	30-39	40-49	50-59	60-69
	<b>1353</b>	<b>193</b>	<b>152</b>	<b>89</b>	<b>62</b>

#### Gender Distribution

Sex	Male	Female
Number	<b>698</b>	<b>1223</b>
Percentage	<b>36.34</b>	<b>63.66</b>

#### Single Parent Head of Household Assisted

Sex	2-Parent Family	Male	Female
Number	<b>44</b>	<b>62</b>	<b>597</b>
Percentage	<b>6.26</b>	<b>8.82</b>	<b>84.92</b>

#### Assisted Housing Unit Distribution

Program Type	2- Bdrm	3 Bdrm	4 Bdrm	Total
Voucher	<b>267</b>	<b>273</b>	<b>29</b>	<b>569</b>

#### Race/Ethnicity

Race/Ethnicity	White	Black	American Indian/Alaskan	Asian	Hispanic	Other
Number	<b>794</b>	<b>1120</b>	<b>0</b>	<b>6</b>	<b>380</b>	<b>0</b>

#### Income Sources

	PE	SI/D	U	SSI	CS	W	N
Households with:	<b>14</b>	<b>14</b>	<b>16</b>	<b>180</b>	<b>156</b>	<b>125</b>	<b>39</b>

PE-Pension SI/D-Disability/AFDC U-Unemployment N-other Income SS-Social Security CS-Child Support W-Work/Job/Earned Income

The Department will establish a Program Coordinating Committee (PCC) to assist in securing the commitments of public and private resources for the operations of the FSSP within the Houston area. The PCC will consist of members representing the Department, residents assisted under the Housing Choice Voucher Program, and members from local government. Committee members will include representation from: local agencies responsible for carrying out the Texas Department of Human Services (TDHS) JOBS training programs, social service programs, employment agencies, public and private education, child care providers, nonprofit service providers, private business, and any other public and private service providers with resources to assist the FSSP.

The PCC will assemble subcommittees as needed to handle selection of participants, grievances, and disciplinary actions.

### **III. ELIGIBLE FAMILIES FROM OTHER SELF-SUFFICIENCY PROGRAMS**

The Department will require the family to live in the initial Public Housing Authority (PHA) jurisdiction in order to participate in the FSS program. Families choosing to move must demonstrate to the satisfaction of the initial PHA that the family will be able to fulfill its responsibilities under the contract at the new residence. Families choosing to move who cannot achieve the objectives and goals agreed upon under the Contract of Participation at the new location will be terminated from the FSSP and will forfeit their escrow account.

FSSP families relocating their residence will adhere to the rules and regulations outlined in the Department's Section 8 Administrative Plan.

### **IV. FSSP FAMILY SELECTION PROCEDURE**

The Department will select participants in an objective and non-discriminatory manner. A family's election not to participate in the FSS program will not affect the family's admission to the Housing Choice Voucher Program or the family's right to occupancy in accordance with its lease.

Family Self-Sufficiency Program participation will be voluntary; eligible participants will be accepted regardless of race, color, religion, sex, age, handicap, marital status, or national origin.

The Department will initiate outreach efforts with a general mail out to all Section 8 participants in Brazoria County. An information flyer will introduce the FSSP and will solicit tenant participation by requesting a reply via an enclosed postage paid return envelope. FSSP information will be included in all new admission briefing packets. Each participant will be required to complete an orientation prior to signing the FSSP contract.

## **A) Recruiting Process**

The Local Operator will distribute brochures and posters in various local agencies, including the Brazoria County Welfare/ Section 8 office. The Department will identify families with increased income and will provide counseling on the advantages of participating in the FSSP.

## **B) Selection Criteria**

1. Participant must be eligible for or currently participating in the Section 8 Housing Choice Voucher Program.
2. Participant must be currently classified as head of household.
3. Participant must successfully complete the FSSP orientation class.
4. Participant must commit to completion of the FSSP or Texas Department of Human Services (TDHS) Survival Skills course which includes discussion of: self esteem, housekeeping, budgeting, nutrition, personal care, child care management, assertiveness, coping skills, time management and community service.
5. Participant must agree to keep in close contact with the FSSP Coordinator and report all changes.
6. Participant must adhere to all policies associated with the FSSP.
7. Participant must keep FSSP goals up to date.
8. Participant must attend monthly support meetings.

Upon completion of the life skills sessions by each participant, the FSS Coordinator will review the FSSP contract with the participant and the participant will sign the FSSP Contract (HUD-52650). At that time, the FSS Coordinator will interview the FSSP participant to develop the individual case summary, which will include, but will not be limited to, personal goals, present educational status, employment history, financial information, level of functioning, public assistance the family is receiving, etc. The FSS Coordinator will develop an individual service plan to include strategies to address areas such as career counseling, job skills assessment, resume preparation, job readiness workshops, job referrals, and job placement assistance. The FSSP Coordinator will monitor the participant's progress on a quarterly basis. Monitoring will include periodic home visits which will provide an opportunity for the FSS Coordinator and participant to discuss personal concerns and issues in the participants' own environment.

## **V. INCENTIVES TO ENCOURAGE PARTICIPATION – FSSP Escrow Account**

In the National Affordable Housing Act of 1990, Congress approved the financial incentive for participation in the FSSP. When a tenant signs an FSSP contract, the FSS Coordinator will update and verify the income and Total Tenant Payment (TTP). As the family's earned income increases, the TTP will be updated. Increased income enables the tenant to pay more toward their rent and utilities, and thus, the Department pays less on the tenant's behalf. This savings to the Department will be deposited monthly into an

escrow account established in the participant's name. As long as the participating family continues to fulfill their FSSP contract, the escrow account will reflect a monthly increase.

The Department will deposit the FSSP escrow account funds for participating families into a single depository, HUD-approved investment account. The total of the funds will be supported in the accounting records by a subsidiary ledger showing the balance for each family. The Department will credit the accounts monthly. The investment income for funds in the escrow account will be prorated on an equitable basis and credited to each family's account annually.

The Department's Accounting Division will prepare an annual status report of each FSSP family's account. The report will include:

- a) The balance at the beginning of the reporting period.
- b) The amount of the family's rent payment that was credited to the FSS account during the reporting period.
- c) Any deductions made from the account for amounts due to the Department before interest is distributed.
- d) The amount of interest earned on the account during the reporting period.
- e) The total in the account at the end of the reporting period.

The amount in the FSSP account, in excess of any amount owed to the Department by the family, shall be paid to the head of the family when the contract of participation has been completed, if, at the time of contract completion, the head of the family submits to the Department a certification attesting that to the best of his or her knowledge and belief, no member of the FSSP family is a recipient of welfare assistance.

Over time, the escrow account can accumulate to a substantial sum. Upon completion of the FSSP, the Department will disburse the escrow account funds to the participant. The Department's goal is to assist extremely low- and very low-income families to make the transition from assisted housing to homeownership. The FSS participant will be encouraged to use the FSSP escrow fund and supplement them with other housing assistance programs such as First Time Homebuyer Program to purchase a home.

## **VI. OUTREACH EFFORTS**

The Department will begin outreach efforts with a general mail out to all Section 8 participants in Brazoria County. Following that, at a minimum, the Department will mail annually an FSSP notification letter, brochure, or postcard providing information on FSSP to all the Department's Section 8 tenants. The Department will include FSSP information in all new admission briefing packets. The Local Operator will encourage each tenant to participate in the FSSP. Section 8 tenants interested in participating in FSSP must attend a mandatory orientation for the purpose of obtaining program information and clarification to questions. Upon concluding orientation, interested

participants will complete an FSSP application package and will complete the Skills Training Class.

The Department will provide information and training to service providers in Brazoria County to encourage the participation of their participants in the FSSP. The PCC will provide oral presentations as well as written information to these providers.

## **VII. SERVICES AND RESOURCES PROVIDED**

The following are resources available to low income participants in the Brazoria County area.\*

### **1. CHILD CARE**

- The Texas Department of Human Services (TDHS) JOBS and Child Care Management System (CCMS) program to assist eligible families with child care costs.
- Salvation Army
- Head Start

### **2. TRANSPORTATION**

- Connect Transportation
- United Way
- The Veterans Administration

### **3. EDUCATION**

- Local Community Colleges
- Texas Workforce Commission
- The Texas Department of Human Services

### **4. JOB TRAINING**

- Career Centers
- Service Core of Retired Professionals (SCORE)
- The Texas Department of Human Services

### **5. COUNSELING**

- Youth and Family Counseling
- Churches
- Counseling Services Within Community

### **6. OTHER SERVICES**

- Child Support Enforcement
- Consumer Credit Counseling Service
  - Women's Center

\*See attached list of resources included in the Housing Choice Voucher Briefing Packet

## **VIII. PORTABILITY**

The Department will require the family to live in the initial Public Housing Authority (PHA) jurisdiction in order to participate in the FSS program. Families choosing to move must demonstrate to the satisfaction of the initial PHA that the family will be able to fulfill its responsibilities under the contract at the new residence. Families choosing to move who cannot achieve the objectives and goals agreed upon under the Contract of Participation at the new location will be terminated from the FSSP and will forfeit their escrow account.

## **IX. PROGRAM TERMINATION**

FSSP families are subject to the same policies concerning the termination of their Section 8 Housing Assistance as outlined in the Department's Administrative Plan. The Department may terminate assistance if the participant or family member:

- (1) Has violated any family obligation listed on the Housing Choice Voucher;
- (2) Engage in drug-related criminal activity or violent criminal activity, including criminal activity by the family member;
- (3) Committed acts which would constitute fraud in connection with any federal housing program;
- (4) Breaches a repayment agreement to TDHCA or an owner.

The FSS contract of participation is automatically terminated when the family's housing choice voucher assistance is terminated in accordance with HUD requirements.

The Contract of Participation may be terminated by:

- (1) Mutual consent of both parties;
- (2) Failure of a participating family or a member of the participating family to honor the terms of the contract;
- (3) A participating family's achievement of self sufficiency;
- (4) Expiration of the term of the contract and any extension thereof;
- (5) A participating family's withdrawal or termination from the Section 8 Program.

A. If the family does not comply with the Contract of Participation, the family will not be eligible to receive the money in FSSP escrow account and the Department may:

- (1) Withhold supportive services from the family;
- (2) Terminate the family's participation in the FSSP; and
- (3) Terminate the family's Section 8 assistance for failure to meet FSSP obligations without just cause.

B. Any family who fails to perform any one of the following activities may be denied services and/or terminated from the FSSP:

- (1) Failure to attend the mandatory orientation and/or failure to reschedule;
- (2) Failure to return the FSSP application form within a specified period of time;
- (3) Failure to complete activities outlined in the individual service plan; or,
- (4) Failure to maintain satisfactory attendance (six meetings per year) at the monthly life skill trainings.

If the Contract of Participation is terminated, the participant will forfeit without recourse amounts in the participant's FSSP escrow account, including any accumulating interest.

The Contract of Participation is concluded when one of the following takes place:

- (1) The FSSP family has fulfilled all of its obligations under the contract of participation on or before the expiration date, including any extensions thereof, or;
- (2) 30% of the monthly adjusted income of the FSSP family equals or exceeds the published existing housing fair market rent for the size of the unit for which the FSSP family qualifies based on the Department's occupancy standard. The contract will be considered complete even though the contract term, including any extension thereof, has not expired, and the family members who have individual training and services plans have not completed all the activities set forth in their plan.

The Department will notify the family by certified letter of any action described above. The procedures for requesting and conducting a hearing will follow the Section 8 program hearing procedures described in the Administrative Plan.

The Department must give the family prompt written notice that the family may request a hearing, and this notice must contain a brief statement of the reasons for the decision, state that if the family does not agree with the decision, the family may request an informal hearing on the decision. The family has (10) days from the date of the notice to request in writing an informal hearing. The hearing will be scheduled by the Department within ten (10) days from the date of the request.

**Note:** If the head of the FSSP household has not sought and maintained employment as specified in the contract, or has not found employment during the contract's five-year term, the family has not met its obligation and can be terminated from the program without being entitled to any of their escrow account.

## **X. TIMETABLE FOR PROGRAM IMPLEMENTATION**

Listed below is the timetable for program implementation:

### **April 1, 2004 through June 30, 2004**

- Develop position description for FSS Coordinator
- Hire or designate staff to coordinate program
- Training for FSS Coordinator
- Develop FSS materials (flyer, brochure, application package, etc.)
- Mail out to Section 8 participants in Brazoria County

### **July 1, 2004 through September 30, 2004**

- Establish Program Coordinating Committee
- PCC will establish subcommittees
- Work with TDHS to develop Survival Skills course

### **October 1, 2004 through December 31, 2004**

- Identify and counsel families with increased income
- Interested tenants attend mandatory orientation
- Complete application package on interested tenants

### **January 1, 2005 through March 31, 2005**

- Participants complete the Survival Skills course
- First group of five families placed under FSS contract

*Texas Department of Housing and Community Affairs*

*Status of Central Database*

- ⊘ *Summary Project Plan/Status*
- ⊘ *Issues/Risks Management*
- ⊘ *Capital Budget Rider Activity*

**TDHCA Central Database  
Summary Project Plan/Status  
As of April 20, 2004**

ID	Task Name	Start	Finish	% Comp	S	Q4 '03				Q1 '04			Q2 '04			Q3 '04		
						O	N	D	J	F	M	A	M	J	J	A		
1	<b>CMTS ENHANCEMENTS CONTRACTED SERVICES</b>	Mon 11/3/03	Wed 6/30/04	61%														
2	Program Monitoring Specifications	Mon 11/3/03	Fri 12/5/03	100%		11/3												
3	Enhanced Compliance Testing	Mon 11/3/03	Wed 5/19/04	95%		11/3												
4	CMTS Reports	Mon 4/19/04	Wed 6/30/04	2%												4/19		
5	Technical Knowledge Transfer	Fri 4/30/04	Wed 6/30/04	0%												4/30		
6																		
7	<b>POST IMPLEMENTATION REVIEW (PIR)</b>	Tue 2/17/04	Wed 3/31/04	100%														
8	PIR Kickoff Meeting	Tue 2/17/04	Tue 2/17/04	100%												2/17		
9	PIR Survey Results Summary	Thu 2/26/04	Thu 2/26/04	100%												2/26		
10	PIR Workshop	Wed 3/24/04	Wed 3/24/04	100%												3/24		
11	PIR Summary Report	Tue 3/30/04	Wed 3/31/04	100%												3/30		
12																		
13	<b>MULTIFAMILY MODULE</b>	Mon 9/1/03	Fri 9/24/04	75%														
14	Multifamily Module Requirements and Design	Mon 12/8/03	Mon 4/19/04	100%		12/8												
15	Functional Review and Acceptance	Fri 8/13/04	Fri 9/24/04	0%												8/13		
16	Development	**	**	10%														
17	Functional Planning and Deployment	**	**	0%														
18																		
19	<b>PRIORITIZATION OF MODULES TO BE DEVELOPED</b>	*	*	0%														
20	* OCI MODULE	*	*	0%														
23	* COMMUNITY SERVICES/ENERGY ASSISTANCE MOD	*	*	0%														
26	* SECTION 8 MODULE	*	*	0%														
29																		
30	<b>TO BE PRIORITIZED</b>	*	*	0%														
31	* APPLICATION MODULE	*	*	0%														
34	* ASSET MANAGEMENT MODULE	*	*	0%														
37	* CREDIT UNDERWRITING	*	*	0%														
40	* CONSTRUCTION & PROGRAM MONITORING MODUL	*	*	0%														

Project: Central Database  
Save Date: Tue 5/4/04

Module Duration

Rolled-up Task

Progress

\* If asterisked (\*), the detailed plans identifying tasks and resources are pending finalization of design requirements. Accordingly, start/end dates have not been identified.  
\*\* Time estimates for the Multifamily Module development, functional planing, and deployment will be produced after the technical design review scheduled for late May 2004.

**TDHCA Central Database  
Summary Project Plan/Status  
As of April 20, 2004**

ID	Task Name	Start	Finish	% Comp	S	Q4 '03				Q1 '04			Q2 '04			Q3 '04	
						O	N	D	J	F	M	A	M	J	J	A	
43	* BOND FINANCE MODULE	*	*	0%													
46	* PROGRAM MODULE	*	*	11%													
47	* CONTRACT SYSTEM - HTF ENHANCEMENTS	*	*	0%													
48	* CONTRACT SYSTEM - HOME ENHANCEMENTS	*	*	0%													
49																	
50	<b>COMPLETED/ACCOMPLISHED</b>	<b>Thu 2/1/01</b>	<b>Wed 12/3/03</b>	<b>100%</b>													
51	Software Dev Environ Infrastructure & Arch Plng	Thu 11/1/01	Thu 2/28/02	100%													
52	Main Menu and Login Process	Mon 12/3/01	Thu 1/31/02	100%													
53	LIHTC Microsoft Outlook Contact Log Solution	Mon 12/3/01	Thu 1/31/02	100%													
54	Housing Sponsor Report	Mon 12/3/01	Thu 1/31/02	100%													
55	HRC Information Clearinghouse	Mon 12/3/01	Fri 6/28/02	100%													
56	<b>Data Migration and Population</b>	<b>Mon 12/3/01</b>	<b>Wed 10/2/02</b>	<b>100%</b>													
57	HRC Information Clearinghouse	Mon 12/3/01	Fri 5/31/02	100%													
58	Housing Sponsor Report	Mon 12/3/01	Fri 1/4/02	100%													
59	LIHTC Portfolio	Thu 3/28/02	Tue 4/23/02	100%													
60	Multi-Family BOND Portfolio (Tax Bond)	Wed 5/1/02	Wed 10/2/02	100%													
61	Software Architecture	Fri 3/1/02	Fri 6/28/02	100%													
62	Housing Sponsor Report - Historical	Tue 3/19/02	Thu 5/16/02	100%													
63	<b>COMP'L. MONITORING &amp; TRACKING SYSTEM (CM</b>	<b>Thu 2/1/01</b>	<b>Mon 11/3/03</b>	<b>100%</b>													
68	<b>CONTRACT SYSTEM</b>	<b>Fri 5/10/02</b>	<b>Wed 12/3/03</b>	<b>100%</b>													

Project: Central Database  
Save Date: Tue 5/4/04

Module Duration

Rolled-up Task

Progress

\* If asterisked (\*), the detailed plans identifying tasks and resources are pending finalization of design requirements. Accordingly, start/end dates have not been identified.  
\*\* Time estimates for the Multifamily Module development, functional planing, and deployment will be produced after the technical design review scheduled for late May 2004.

**TDHCA Central Database**  
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**1 CMTS ENHANCEMENTS CONTRACTED SERVICES**

11/20/2003 - The CMTS Enhancements relate to added functionality, including single audit, program monitoring, 8609 inspections, and screen and report enhancements. Development of this functionality will be planned as resources are identified and as modules are prioritized. Planned target date for task time estimates and prioritization of modules is March 31, 2004. Further deliverables include multifamily needs analysis, business process improvement, and design specifications for entering and maintaining multifamily post-award data.

Capital expenditures for CMTS Enhancements Contracted Services: FY 04-05 \$75,060

**2 Program Monitoring Specifications**

4/20/2004 - Development of Program Monitoring Specifications is pending prioritization by the steering committee.

12/16/2003 - Received the design specification. It has been reviewed and signed off by compliance staff. The contracted deliverables for this item have been met.

11/20/2003 - Contract services related to developing and documenting the specifications necessary to incorporate Single Audit, program monitoring, and 8609 and construction inspections.

**3 Enhanced Compliance Testing**

4/20/2004 - All five test packages have been delivered, and testing on the packages is about 75% complete. The completion date of this task has been extended from 2/29/2004 to 5/19/2004 due to monitor staff availability for testing, and because the contract programmer has encountered some bugs. These bugs are currently being addressed.

03/20/2004 - Five out of the five programming test packages have been delivered. Testing of the packages is approximately 50% complete.

02/20/2004 - Four out of the five programming test packages have been delivered. One programming test package remains. The four that have been delivered are AHDP, HOME, HTC, and HTF. The programming test package for BOND and the 8823 automated reporting component remain.

11/20/2003 - Contract services for automated testing performance improvements and regulatory changes for multifamily properties during the affordability period.

**4 CMTS Reports**

04/20/2004 - Work on CMTS Reports began on 4/19/2004 with Compliance staff meetings. The contractor has received high level documentation on existing reports. The contractor has met with technical team staff to start laying out and identifying some database reporting views. The 4/19/2004 start date is approximately 6 weeks later than originally planned due to completing the Multifamily Module requirements and design.

03/20/2004 - Work on CMTS Reports has not begun because work on the MF design specification has not yet been delivered. The contractor anticipates starting work on CMTS Reports on 4/16/2004.

11/20/2003 - Contract services to complete the analysis and design of in-house management reports for CMTS and risk assessment reports from the Central Database. The reports are for management tracking information and to implement an expanded risk management program required by Senate Bill 322 and will offer comprehensive information collected by CMTS or the Contract System. The contractor will collect reporting requirements from TDHCA staff and define the specifications for the views,

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which will be provided to the Information Systems Division for further consideration.

**5 Technical Knowledge Transfer**

03/20/2004 - Knowledge transfer has been delayed approximately two weeks because work continued on the Enhanced Compliance Testing. The Enhanced Compliance Testing code delivered was a significant rewrite from the original CMTS code delivered and includes performance improvements. Now that this code has been delivered, software quality assurance testing by PM staff remains. Upon completion of testing knowledge transfer can begin. The contractor estimates that knowledge transfer can begin on 4/30/2004.

11/20/2003 - Knowledge transfer with TDHCA ISD staff. Written deliverables include updated versions of process flows, business rules for each program in CMTS, and documentation of changes to CMTS brought about by the CMTS enhancement contract.

**7 POST IMPLEMENTATION REVIEW (PIR)**

4/20/2004 - The results/lessons of the review have been incorporated into the draft project charter pending completion and final review.

3/31/2004 - Post implementation review completed; PIR report distributed to project team, steering committee, and management.

02/17/2004 - The post implementation review kickoff meeting took place. In this meeting ISD discussed the steps in the review and handed out a survey. This survey will be used to collect information from participants.

11/20/2003 - The post implementation review involves all individuals associated with the development of the CMTS and Contract Systems with the goal of identifying opportunities to improve the development process and governance procedures. The Project Charter will be revisited and modified as necessary to ensure that the composition and the roles and responsibilities of the following are well defined:

- \* the steering committee,
- \* the project sponsor,
- \* the project manager,
- \* the project team leaders, and
- \* the project team members.

The project charter will be enhanced, as necessary, to clearly define project management and reporting tools and reports, the frequency of reporting, to whom reports are to be provided, and responsibilities associated with preparing, reviewing and approving the reports. Accountability will be clearly established with approval points at well defined milestones.

**13 MULTIFAMILY MODULE**

2/20/2004 - Commencement of Multifamily Module development is dependent on the review and approval of the design specifications by Multifamily, Real Estate Analysis, and Compliance staff and directors.

11/20/03 - In October 2003, Management decided the best strategy was to develop a Multifamily Module that would suffice for each of the Department's multifamily

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programs rather than separate modules for each of the programs.

The major program in the Multifamily Module will be the Housing Tax Credit Program. The program is the primary means of directing private capital towards the creation of affordable rental housing. The tax credits provide developers of low income rental housing with a benefit that is used to offset a portion of their federal tax liability in exchange for the production of affordable rental housing. The value associated with the tax credits allows residences in HTC developments to be leased to qualified families at below market rate rents.

The Multifamily Module of the Central Database will provide the ability to:

- €# track credit allotments to the state
- €# track the allotment of credits to the individual setasides and subsequent allocation to projects and their respective buildings
- €# track the allocation of credits to the properties
- €# identify applicable fraction for each of the buildings receiving tax credits
- €# identify the purpose of the allocation (acquisition, rehab, new construction)
- €# capture the necessary information to issue 8609s
- €# capture the necessary information to effectively manage the cost certification process
- €# automatically assign the applicable PV rate and provide the ability to lock in the rate
- €# track the tax credit from initial allocation, carryover to final issuance

Application and scoring are preaward and will be considered in the Application Module design.

Capital Expenditures: FY 02-03 \$2,600 (contract services)

Note: Capital expenditures total for FY 04-05 Multifamily Module Requirements and Design is maintained under Item 11 "CMTS Enhancements Contracted Services".

**14 Multifamily Module Requirements and Design**

04/20/2004 - The multifamily module design specifications, previously referred to as HTC/CMTS Process Improvements - Specifications, were delivered by AIMS, Inc. on 4/19/2004. Module development will begin after functional review sessions have been completed, and Multifamily, Real Estate Analysis, and Compliance staff have provided written approval of the specifications.

03/20/2004 - Multifamily module (including HTC) functional requirements review feedback is being incorporated into the original functional requirements. Focus of work is on the design specifications and prototype screens. Prototype screens are approximately 90% complete. Delay is due to the intricacies of the business process and the complexity of integration into the existing architecture. Anticipated delivery date of the design specifications from the contract is 4/16/2004. The 4/16/2004 delivery date does not include review, modifications based on review, reexamination of the specifications after making the modifications, and sign-off. This activity is covered under task item 26, Functional Review and Acceptance.

02/20/2004 - Multifamily module (including HTC) functional requirements have been delivered. The first version has been reviewed by the business team. The consultant has also delivered approximately 50% of the prototype screens. Remaining deliverables include design specifications and completing prototype screens.

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11/20/2003 - Contract services related to:

- ⌘ analysis of the Housing Tax Credit (HTC) Microsoft Access database currently in use to determine the best recommended process for transferring application and award information to CMTS and to provide specification, as necessary.
- ⌘ analysis of business processes to design business rules for handling and processing HTC records until the Multifamily Production module is developed. Deliverables will include recommended processes for a smooth transition of paper and electronic records from Multifamily Production to the Portfolio Monitoring and Compliance Division, including the necessary quality control points and measures.

**15 Functional Review and Acceptance**

4/20/2004 - The multifamily module design specifications were delivered by AIMS, Inc. on 4-19-04. Module development will begin after functional review sessions have been completed, and Multifamily, Real Estate Analysis, and Compliance staff have provided written approval of the specifications. Because production-related work associated with the tax credit cycle is the agency's priority, the functional design review sessions are scheduled to begin August 13, 2004. To allow for changes that will result from the functional design review, ISD has targeted September 24, 2004 for final sign-off on multifamily module specifications.

The technical team will perform a preliminary design review and walkthrough in May 2004 to perform a project time estimate.

**19 PRIORITIZATION OF MODULES TO BE DEVELOPED**

08/04/03 - The Central Database Steering Committee met on 8/4/03 and prioritized the remaining modules. Factors considered in the prioritization included the following:

- ⌘ The need for global performance measures.
- ⌘ The current Community Affairs' program systems are mature and can continue to function.
- ⌘ Time necessary for post-implementation enhancements for the TDHCA Contract System (including "Phase 2" HOME enhancement change requests and HTF enhancements, the remaining Program Module, and fixes on bugs as they are identified with system usage).
- ⌘ Delay the Application Module - Single and Multi-family staff will need to continue to use Genesis to enter applications; however, contracts will be entered and maintained in the new TDHCA Contract System. General consensus was to delay the Application module until after the remaining program modules are incorporated in the Contract system.

The remaining modules were prioritized as follows:

- ⌘ The Program Module, HTF enhancements, other HOME post-implementation enhancements were prioritized at the 8/4/03 meeting and, subsequently, at the 9/24/03 Steering Committee, it was agreed that associated needs and work will be reassessed prior to proceeding.
- ⌘ LIHTC Module (including Cost Certification). Note - Management decided in October 2003 that the best strategy was to develop a Multifamily Module for all of the Department's multifamily programs rather than separate modules for each of the programs. See the discussion of the Multifamily Module for more information.
- ⌘ OCI Module. The Department will determine if OCI contracts can be incorporated into the Contract System with a limited amount of design work and programming changes. If so, the priority of this component will be bumped up. OCI, Compliance, and ISD staff will participate in this meeting.
- ⌘ Community Services/Energy Assistance Module
- ⌘ Section 8 Module

The remaining modules and other enhancements were not prioritized because the development and implementation time associated with the modules prioritized above

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is significant. The prioritization of the remaining modules and enhancements will be assessed as the time to apply resources to those modules and enhancements approaches. The Department will have a better appreciation for the prioritized needs of the Department and the resources available to apply at that time. The remaining modules and enhancements to prioritize are the:

- # Application Module,
- # Asset Management Module,
- # Construction Monitoring Module,
- # Credit Underwriting and Cost Certification Module,
- # Bond Finance Module,
- # Program Module,
- # Contract System - HTF enhancements, and
- # Contract System - HOME enhancements.

**20 \* OCI MODULE**

This module will provide the capability to track its programs (Texas Bootstrap Loan Program, Contract for Deed Conversion Loan Programs, Builder Incentive Partnership Program, Contract for Deed Conversion Loan Guarantee Program, Colonia Self-Help Center Program, and Colonia Consumer Education Programs) through the database. This will enable the creation of various reports regarding the colonias and these programs. There will also be a capability to search on the database for other funding activities in the colonias by other programs within the Department.

Plans include determining whether the OCI contracts can be incorporated into the Contract System with a limited amount of design work and programming changes.

**23 \* COMMUNITY SERVICES/ENERGY ASSISTANCE MODULE**

The Community Services/Energy Assistance Module will extend the Contract System functionality of the TDHCA Contract System to the CS and EA programs. The module will allow funds to be tracked from source through award and contract closeout for the following fund sources: General Revenue, US Dept. of Health and Human Services, HUD, HHS Community Food and Nutrition Program, ENTERP, DOE, and Investor Owned Utilities. The module will incorporate the contract and program rules of the CS and EA program activity types: ESG, CSBG, CFNP, ENTERP, Weatherization, LIHEAP-CEAP, LIHEAP-WAP, SBF, and IOU. Monthly reporting functions for program activity types will be incorporated. The module will also allow for the tracking of budgets, draws, and expenditures. Existing historical and financial data will be converted to the new database as appropriate.

**26 \* SECTION 8 MODULE**

The Section 8 module will consist of 4 major components. They are Family Reports, Contracts, Payments and Contract Tracking. The Family Reporting System (i.e., application system) is modeled after HUD's automated Form 50058 application process which is used to collect, store and generate reports on families who participate in the Section 8 rental subsidy program. Once a family's application has been submitted and processed by HUD, it is ready to become a contract in TDHCA's Section 8 program. The Contract System is almost an exact mirror of the Family Reporting System except that it abstracts the information to a higher level and presents it in a more summarized form to agency users. A contract then provides the Section 8 Payment System with the information it needs to process payments for local operators, landlords and tenants. This system then feeds the information to Accounting's CSAS System which, in turn, gives accounting the information they need to produce their monthly checks for the aforementioned groups. Lastly, the Section 8 Contract Tracking System is used to help the program area "keep track" of which contracts have received their payments and/or have reimbursed the agency for the services rendered.

**31 \* APPLICATION MODULE**

Provide the ability to create and store application guidelines, threshold information, scoring criteria and templates to be used in the application scoring process. The

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system will allow the applicant to enter and submit the application online and submit any supporting documentation via hardcopy and electronic means. Where possible, automated scoring will be invoked but regardless, all scoring will be performed in the system and summarized automatically. As application flows through the process, updates to fund balances are automatically updated to reflect applications that have not met minimum thresholds.

Capital Expenditures: FY 02-03 \$5,000 (contract services)

**37 \* CREDIT UNDERWRITING**

This module will provide the ability to capture and track underwriting details and apply pre-established thresholds and tolerances to determine eligibility or compliance with established standards.

**40 \* CONSTRUCTION & PROGRAM MONITORING MODULE**

This module will coordinate and manage the monitoring activities performed at projects, subrecipients, etc. The system will provide the ability to capture pertinent information regarding the monitoring activity and consolidate the results of all monitoring activities at the entity in a common location.

**43 \* BOND FINANCE MODULE**

The Bond Finance module will capture all relevant commercial paper, single family and multifamily bond data and information for retrieval and reporting purposes. The Bond Finance module will provide this data and information in a readily accessible manner through user defined reports to provide information to other state agencies. Financial concerns, such as rating agencies, bond insurers, investors, investment banks, etc. also will use these reports. The Bond Finance module will consolidate current report preparation processes, thereby increasing Bond Finance's efficiency and productivity with the issuance of new bonds and the management of outstanding bonds.

**46 \* PROGRAM MODULE**

Provide the ability to store online program level information. The information to be stored includes: Program name, the type of program (multi family or single family), program activities with each activity's specific strategies, targets (income targets, geographic, special needs, non-profit participation etc.) and requirements.

Provide the ability to map back to the original program targets the actual results as contracts are awarded to provide a visual summary of the actual results as they occur.

Capital Expenditures: FY 02-03 \$3,250 (contract services)

8/31/03 - The 11% reported is rolled forward from the last status report to the Department's Governing Board, April 30, 2003, and relates to requirement and design work that has been completed.

**50 COMPLETED/ACCOMPLISHED**

Capital Expenditures Not Associated with Individual Milestones FY 02-03:

Java Training, \$7,640

Server Hardware, \$42,987

Software and Misc., \$4,620

**51 Software Dev Environ Infrastructure & Arch Plng**

The software development environment was restructured and a more refined process that accommodated both existing and new programming languages, databases and standards were put into place. This includes the development of a project charter, the creation of a detailed project plan, selection of a source code control tool, the addition of a modified QA process that involves more user participation, the creation of web and graphical user interface standards, Java coding standards, database

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naming convention standards, Java software development platform standard, and software change control, management and deployment process improvements.

Capital Expenditures: FY 02-03 \$11,700 (contract services)

**52 Main Menu and Login Process**

The Central Database Main Menu for navigation through the system. The Login Process entailed developing the interface and preliminary security mechanisms for internal users. This also included development of a standardized interface stylesheet for use in the application.

Capital Expenditures: FY 02-03 \$14,000 (contract services)

**53 LIHTC Microsoft Outlook Contact Log Solution**

Provided an immediate Microsoft Outlook solution to a SB322 item where oral (phone) or written communication can be logged for the LIHTC program. This is the short-term solution to the SB322 item. The longer-term solution will be in the form of the LIHTC Contact Log.

**54 Housing Sponsor Report**

The Housing Sponsor Report is used by the property owners and property managers to report property and unit information into the Central Database. The Housing Sponsor Report is required to be submitted to TDHCA on an annual basis for any properties where program participation was involved.

Capital Expenditures: FY 02-03 \$650 (contract services)

**55 HRC Information Clearinghouse**

The Housing Resource Center Information Clearinghouse provides the citizens of Texas easy access to information on homebuyer assistance, rental housing assistance, home repair, and other community services throughout the state. A brief description of several programs offered by TDHCA and other state and federal programs, including hyperlinks, is also available.

Capital Expenditures: FY 02-03 \$51,034 (contract services)

**56 Data Migration and Population**

Capital Expenditures: FY 02-03 \$22,885 (contract services)

**61 Software Architecture**

The software infrastructure required for current and future projects which included the design, technical design and software development of data access routines, object model development and user interface framework.

Capital Expenditures: FY 02-03 \$18,750 (contract services)

**62 Housing Sponsor Report - Historical**

The Housing Sponsor Report - Historical information is used to query for property and unit information that has been provided in prior Housing Sponsor Report reporting years. The Housing Sponsor Report is required to be submitted to TDHCA on an annual basis for any properties where program participation was involved. This portion of the system is specific to historical information as previously reported by prior Housing Sponsor Reports entered by property owners and property managers.

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**63 COMPL. MONITORING & TRACKING SYSTEM (CMTS)**

CMTS was Phase I of the Central Database Project. The goal of Phase I was to develop a fully integrated system to address the compliance monitoring needs for all multifamily housing programs. The system was designed to provide full integration and reporting, provide automated compliance functions for the LIHTC, AHDP, HOME, HTF, and Tax Exempt Bond programs during the affordability period, allow remote property managers to access and update tenant information through the Internet, and improve productivity through the use of a sound business process design, a graphical user interface, and improved access to data.

Capital expenditures for AIMS Contract: \$309,038 (\$262,955 paid in FY 01; \$46,083 paid in FY 02)

Capital Expenditures for External Property Owner's Interface: FY 02-03 \$8,375 (contract services)

Capital Expenditures for Functional Planning and Deployment: FY 02-03 \$12,900 (contract services)

Capital Expenditures for FY 03 Post Implementation Enhancements (\$44,355)

**68 CONTRACT SYSTEM**

*The Contract System was moved into production (go-live) on December 2, 2003 for internal users and December 3, 2003 for external users.*

The Fund Allocation portion of this module allows each of the program areas to distribute and track funds from the original fund source (HUD, General Revenue, and others) to programs, regions, and activities ( Rental Housing Development, Owner Occupied, SECO, and others) and specific setasides (CHDO, Special Needs, and others). The tracking of the funds includes source of the funds and expiration dates (Federal and State) for each of the source types to the contract level. Program Income, Deobligated Funds and Administration Funds are also tracked at a detail level from source to final use. Balances are automatically maintained in each of the funds.

A history of all transactions against any of the funds is maintained. The transaction history contains the type of transaction, date, amount, by whom and comments.

The Contract and Draw portion of this module is inclusive of budgets and draws. This segment of the module provides the ability for program areas to set up a contract in the system; associate the contract to organizations and persons involved in the development and execution of the contract; track the use of leveraging and matching funds for individual contracts; provide the ability to create contract activities associated with the contract; create and maintain the budget including balances as funds get drawn, deobligated or refunded; track the application of program income to contracts and maintain the balances of deobligated funds to ensure deobligated funds are used immediately upon availability; and provide the ability to track the receipt of Program Income as well as tracking the program income proceeds at the contract level.

The System also provides the ability for the subrecipients to create and manage their own detail budget online. Management of the budget by the subrecipient includes the transfer of funds between budget items but not changes to the overall budget, which requires a formal amendment. Balances are maintained by the system as funds are drawn, refunded etc.

The initial release of this module accommodates the functional needs of the HOME and Housing Trust Fund programs. While the timelines planned incorporate the design work for the Energy Assistance (EA) and Community Services (CS) programs, the development, testing and acceptance of work for these programs is not anticipated until subsequent releases not currently scheduled. Additionally, any functionality offered by the Contract System applicable to the LIHTC, OCI and Bond programs will not be fully designed, developed, tested and accepted until consideration of those program modules.

Capital Expenditures: \$210,095 (contract services)

**TEXAS DEPARTMENT OF HOUSING  
AND COMMUNITY AFFAIRS**

**CENTRAL DATABASE PROJECT**

**ISSUES/RISKS MANAGEMENT  
As of May 4, 2004**

The following issues have been prioritized for resolution.

<b>Issues/Risks</b>	<b>Impact/Potential Impact</b>	<b>Status</b>
2001 – 2003 multifamily data has not been entered (Housing Tax Credits, HTF, and HOME properties).	Incomplete reporting information. Incomplete operating information, e.g. Compliance does not have information readily available that is necessary to perform their job duties.	Planning stage ... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.
Formal standardized processes, policies and procedures have not been developed for current and future entry of multifamily data for new awards (Housing Tax Credits, HTF, and HOME properties).	Incomplete, inaccurate reporting information. Confusion relating to roles and responsibilities. Data not being controlled and entered efficiently. Lack of quality assurance and accountability.	Planning stage ... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.
Duplicate records such as organizations, persons and addresses in the system.	Business processing delays resulting from cleaning or correcting data. Unreliable reporting information.	Planning stage ... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.
Training for the Contract System and CMTS has not been sufficient.	Inefficient and ineffective use of the system; frustration on behalf of users.	Planning stage ... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.
Internal user documentation for the contract system and CMTS is not adequate.	Inefficient and ineffective use of the system; frustration on behalf of users.	Planning stage ... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.
CMTS and the Contract System web applications are built on different Java frameworks and code has not been created for authentication interoperability. Additionally, due to implemented security practices, after 15 minutes of inactivity users are required to login again.	Users are required to login twice, sometimes repeatedly if the system times out, giving the appearance of two separate systems. User confusion and frustration with the system.	Planning stage... issue owner has been assigned to develop plan identifying necessary tasks, resources and timeline.

Texas Department of Housing and Community Affairs  
 Capital Budget Rider Activity  
 Centralized Database Project/Enhancements to Compliance System

	Approp 58005			Approp 58004		
	Central Database Project			Enhancements to Compliance System		
	2004	2005	Biennium	2004	2005	Biennium
Original Appropriation	\$ 135,000	\$ 125,000	\$ 260,000	\$ 135,000	\$ 110,000	\$ 245,000
Unexpended Balance Forward			-			
Subtotal	135,000	125,000	260,000	135,000	110,000	245,000
Appropriation Adjustment			-			
Total, Adjusted Appropriation	135,000	125,000	260,000	135,000	110,000	245,000
Cash Expenditures by Object of Expense:						
Computer Programming Services, (Note 1) (7275)			-	(67,460)		(67,460)
Computer Equipment Controlled (7378)			-			-
Computer Software - Expensed (7380)			-			-
Subtotal	-	-	-	(67,460)	-	(67,460)
Payables - Programming (7275)				(7,600)		(7,600)
Total Expenditures	-	-	-	(75,060)	-	(75,060)
Subtotal, Appropriation Balance	135,000	125,000	260,000	59,940	110,000	169,940
Appropriation Lapse			-			
Total, Appropriation Balance	\$ 135,000	\$ 125,000	\$ 260,000	\$ 59,940	\$ 110,000	\$ 169,940

Note 1:  
 Enhancements to Compliance System  
 Programming Services Detail  
 PO#332-4-4095

Contractor	Rate/hr	Original Hours Contracted	Amended Hours Contracted	Total Hours Contracted	Contract Amount
Raju - Program Designer	65	650		650	42,250
Russ Walch - Business Data Architect (AIMS)	75	1,200		1,200	90,000
Total, Contracted Labor					<u>132,250</u>

Billings:	Invoice #	Hours Billed	Amount Billed	Total Billed
Raju 10/27/03 thru 11/07/03	#2003-60	80	5,200	
Russ 10/27/03 thru 11/07/03	#2003-60	80	5,600	
Total			10,800	10,800
Raju 11/08/03 thru 11/21/03	#2003-62	80	4,000	
Russ 11/08/03 thru 11/21/03	#2003-61	80	6,000	
Total			10,000	20,800
Raju 11/22/03 thru 12/12/03	#2003-64	104	5,200	
Russ 12/06/03 thru 12/12/03	#2003-63	18	1,350	
Total			6,550	27,350
Raju 12/13/03 thru 01/04/04	#2004-02	40	2,000	
Russ 12/15/03 thru 01/04/04	#2004-01	58	4,110	
Russ 01/05/04 thru 01/18/04	#2004-03	102	7,650	
Total			13,760	41,110
Raju 01/18/04 thru 02/08/04	#2004-05	80	4,000	
Russ 01/19/04 thru 02/01/04	#2004-04	134	10,050	
Total			14,050	55,160
Russ 02/09/04 thru 02/29/04	#2004-06	148	11,100	
Russ 03/01/04 thru 03/21/04	#2004-08	112	7,600	
Raju 02/09/04 thru 02/29/04	#2004-07	24	1,200	
Total			19,900	75,060

**EXECUTIVE SESSION**

If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session

Personnel Matters – Discussion Under Sec. 551.074, Texas Government Code of Performance Evaluation for Internal Auditor

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

Personnel Matters – Discussion and Possible Approval of Performance Evaluation for Internal Auditor

**ADJOURN**