

# **AUDIT COMMITTEE MEETING**

## **JULY 25, 2013**



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

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

**AGENDA**

9:00 a.m.  
July 25, 2013

Capitol Extension Auditorium  
1500 North Congress, Austin, TX 78701

**CALL TO ORDER, ROLL CALL**

Leslie Bingham-Escareño, Chair

**CERTIFICATION OF QUORUM**

Leslie Bingham-Escareño, Chair

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

**ACTION ITEMS**

- Item 1 Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for January 17, 2013
- Item 2 Presentation, Discussion, and Possible Action on the Status of the FY 2013 Internal Audit Work Plan
- Item 3 Presentation and Discussion of Recent Internal Audit Reports:
  - a) An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund
  - b) An Internal Audit of Asset Management
- Item 4 Presentation and Discussion of the Status of External Audits
- Item 5 Presentation and Discussion of Recent External Audit Reports:
  - a) Statewide Audit of Federal Funds
  - b) Section 8 Program's Use of Criminal History Record Information
  - c) DOE Monitoring of the Weatherization Assistance Program
  - d) National Foreclosure Mitigation Counseling Program – Rounds 4 and 5
  - e) DOE-OIG Monitoring of the Weatherization Assistance Program – Travis County
  - f) HUD Section 8 Management Assessment Program (SEMAP) Review
  - g) SAO Report on SAS 119 Review of HUD REAC Data
  - h) National Foreclosure Mitigation Counseling Program – Round 6
- Item 6 Presentation and Discussion of the Status of Prior Audit Issues
- Item 7 Presentation and Discussion of the Status of the Fraud, Waste and Abuse Hotline and Other Fraud Complaints

Sandy Donoho,  
Director of Internal  
Audit

**REPORT ITEM:**

The Committee accepts the following report:

Report to the Committee and Possible Discussion on the Annual Performance Evaluation of the Director of Internal Audit and Delegation to Chair of Audit Committee, as this will be presented to the full Governing Board

Leslie Bingham-  
Escareño, Chair

## EXECUTIVE SESSION

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

1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee:  
*(a) the Director of Internal Audit*
2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

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

## OPEN SESSION

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

## ADJOURN

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

*Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least three (3) days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Jorge Reyes, 512-4577 at least three (3) days before the meeting so that appropriate arrangements can be made.*

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

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**AUDIT COMMITTEE ACTION REQUEST**

**BOARD SECRETARY**

**JULY 25, 2013**

Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes Summary for January 17, 2013.

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit Committee Meeting Minutes Summary for January 17, 2013, are hereby approved as presented.

AUDIT COMMITTEE  
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

9:00 a.m.  
January 17, 2013  
Thompson Conference Center  
2405 East Campus Drive, Room 3.102  
Austin, TX 78712

MINUTES SUMMARY

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

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs was called to order by Chair, Lowell Keig at 9:00 a.m. on January 17, 2013. It was held at the Thompson Conference Center, 2405 East Campus Drive, Room 3.102, Austin, TX. Roll call certified a quorum was present.

**Members Present:**

Lowell Keig, Chair  
Leslie Bingham-Escareño, Member  
Tom Gann, Member

**PUBLIC COMMENT**

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

The Committee met to consider and possibly act on the following:

**AGENDA ITEMS**

- AGENDA ITEM 1** Presentation, Discussion, and Possible Approval of the Audit Committee Minutes for September 6, 2012  
**Motion by Tom Gann to approve the Audit Committee Minutes for September 6, 2012; duly seconded by Leslie Bingham-Escareño; motion passed.**
- AGENDA ITEM 2** Presentation, Discussion and Possible Action on Acceptance of the 2012 Audit Results from the State Auditor's Office  
-Communications with the Audit Committee  
-Opinion Audit on FY 2012 Basic Financial Statements  
-Opinion Audit on FY 2012 Revenue Bond Program Enterprise Fund  
-Opinion Audit on FY 2012 Computation of Unencumbered Fund Balances  
Verma Elliott, Audit Manager and Tony Rose, Assistant Project Manager, SAO, reported on the audit results and stated that they did not identify any deficiencies in internal control over financial reporting that they considered to be material weaknesses or instance of non-compliance.  
**Motion by Leslie Bingham-Escareño to approve Acceptance of the 2012 Audit Results from the State Auditor's Office; duly seconded by Tom Gann; motion passed.**
- AGENDA ITEM 3** Presentation, Discussion, and Possible Action on the 2013 Internal Audit Charter and Board Resolution No. 13-019  
**Motion by Tom Gann to approve the 2013 Internal Audit Charter and Board Resolution No. 13-019; duly seconded by Leslie Bingham-Escareño; motion passed.**
- AGENDA ITEM 4** Presentation and Discussion of the Internal Audit Peer Review Results  
**Report only. No action required.**
- AGENDA ITEM 5** Presentation and Discussion of the Status of the Fiscal Year 2013 Internal Audit Work Plan  
**Report only. No action required.**
- AGENDA ITEM 6** Presentation and Discussion of Recent Internal Audit Reports  
An Audit of Program Services  
**Report only. No action required.**
- AGENDA ITEM 7** Presentation and Discussion of the Status of External Audit s  
**Report only. No action required.**

**AGENDA ITEM 8** Presentation and Discussion of Recent External Audit Reports  
Comptroller's Post-Payment Audit  
FEMA Close-out Monitoring of the Heston Contract  
HUD Uniform Relocation Act Monitoring  
HUD Monitoring of the HOME Program  
**Report only. No action required.**

**AGENDA ITEM 9** Presentation and Discussion of the Status of Prior Audit Issues  
**Report only. No action required.**

**AGENDA ITEM 10** Presentation and Discussion of the Status of the Fraud Hotline and Fraud, Waste and Abuse Complaints  
**Report only. No action required.**

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

No public comment.

**EXECUTIVE SESSION** No Executive Session Held.

**ADJOURN**

Since there was no further business to come before the Committee, Lowell Keig adjourned the meeting of the Audit Committee at 9:57 a.m. on January 17, 2013.

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Barbara Deane, Board Secretary

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

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**AUDIT COMMITTEE ACTION REQUEST**

**INTERNAL AUDIT**

**JULY 25, 2013**

Presentation, Discussion, and Possible Action on the Status of the Fiscal Year 2013 Internal Audit Work Plan.

**RECOMMENDED ACTION**

**WHEREAS**, the Internal Audit Plan for fiscal year 2013 was approved by the Audit Committee and the Governing Board on September 6, 2012, and

**WHEREAS**, there has been significant turnover in the Information Systems Division that would make it difficult for the staff of Internal Audit to complete the special project to work with the Information Systems Division staff to consolidate the Enterprise Risk Management (ERM) and Risk Assessment Processes this fiscal year;

**NOW, therefore, it is hereby**

**RESOLVED**, that this Audit Committee approves removing the “Consolidate ERM and Risk Assessment Processes” special project from the Internal Audit Plan for fiscal year 2013 and moving the 175 hours associated with the ERM project to the “Tracking, Follow-up and Disposal of Fraud Complaints” project.

**BACKGROUND**

The Department of Housing and Community Affairs (Department) uses an agency-wide enterprise risk management or ERM process to assess risk on an annual basis. The Director of the Information Systems Division is the owner of the ERM process and facilitates annual updates to the process. In addition, the Internal Audit Division conducts an annual agency-wide risk assessment that includes input from the Department’s directors and managers. To prevent overlap and to avoid duplication of effort, Internal Audit was planning to work with the Director of the Information Systems Division to merge portions of these two processes. However, significant turnover in the Information Systems Division due to retirements and resignations has made this project unfeasible for the current fiscal year.

In addition, an increase in fraud, waste and abuse complaints has taken more of the Internal Audit Division’s time than the 100 hours set aside for handling these types of complaints. We are currently at approximately 179% of our budgeted time for this activity.

**Department of Housing and Community Affairs  
Internal Audit Division  
Status of the Fiscal Year 2013 Internal Audit Plan  
as of July 25, 2013**

<b>Program Area/Division</b>	<b>Audit</b>	<b>Hours 4160</b>	<b>Comments</b>
Asset Management	Asset Management	900	Completed
Program Services	Program Services – Quality Assurance	1000	Completed
Bond Finance	Housing Trust Fund Transfers	160	Completed
Compliance	Compliance Monitoring	1000	Reporting
Agency-Wide	Loan Processing	1000	Fieldwork
Mfg. Housing Division	Mailroom Procedures and Processes	100	Completed
<b>Program Area/Division</b>	<b>Management Assistance/ Special Projects</b>	<b>900</b>	<b>Comments</b>
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2014 Audit Plan	120	In Process - Due Late Summer 2013
Internal Audit	Annual Review and Revision of Internal Audit Charter	20	Completed
Internal Audit	Review and Revise Internal Audit Policies and Procedures to Comply with New Auditing Standards	60	Completed
Internal Audit	2012 Peer Review	160	Completed
Internal Audit	Preparation and Submission of the Fiscal Year 2013 Annual Internal Audit Report	40	Due Fall 2013
Internal Audit	Coordinate with External Auditors	50	Ongoing
<del>Internal Audit/IS</del>	<del>Consolidate ERM and Risk Assessment Processes</del>	<del>175</del>	<del>Pending</del>
All Divisions	Follow-up on the Status of Prior Audit Issues	125	Ongoing
All Divisions	Tracking the Status of Prior Audit Issues	50	Ongoing
All Divisions	Tracking, Follow-up and Disposal of Fraud Complaints	<del>100</del> 275	Ongoing

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JULY 25, 2013**

Presentation and Discussion of Recent Internal Audit Reports.

**REPORT ITEM**

Internal Audit recently completed the following audits from the fiscal year 2013 audit plan:

- An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund, and
- An Internal Audit of Asset Management.

**BACKGROUND**

**An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund:**

Chapter 2306.204-205 of the Texas Government Code requires the Department to transfer a portion of any excess funds from the bond program to the Housing Trust Fund. The amount of the transfer should be calculated using a formula included in the statute. However, since at least fiscal year 2000, this calculation has not been performed correctly. As a result, as much as an additional \$5.5 million could have transferred to the Housing Trust Fund between fiscal years 2000 and 2002. The majority of the unencumbered funds are subject to the terms of the bond indentures which require the Department to meet certain conditions set out in the indentures before these funds can be transferred to other programs. It is important to note that during this time period, the Division reports that they transferred \$12.9 million from the bond program to other housing programs outside of the transfers required by the statute.

In addition to recommending that the Division revise their methodology so that future calculations follow the requirements of the statute, the Division should develop a written policy regarding how the calculation should be performed. Management was generally in agreement with the findings and has indicated that they intend to implement the recommendations in the report.

**An Internal Audit of Asset Management:**

Asset Management adds value to the Department by providing oversight of development performance in order to minimize the Department's risk. Asset Management is a newly-created division which oversees development performance for all multifamily properties and performs collections on single-family accounts. This oversight includes performing a variety of activities such as processing cost certifications, analyzing financial information, and working with troubled properties and delinquent borrowers to return them to good standing with the Department. Asset Management monitors and

processes all post-carryover activities for developments involving housing tax credits, HOME funds, Housing Trust Funds and Neighborhood Stabilization (NSP) funds.

We evaluated the performance of selected Asset Management activities and found that Asset Management effectively performs their assigned duties but there are opportunities to improve consistency in how they perform these duties. Asset Management is using some guidance developed for the divisions that were previously charged with these tasks. They have developed some policies and procedures of their own, but these policies and procedures have not yet been finalized. Enhancing their policies, procedures and processes will help increase consistency and enable Asset Management to better track their performance. Management agrees with our recommendations and has indicated that they are working to implement the recommendations in the report.

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## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

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J. Mark McWatters

March 06, 2013

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

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

RE: AN INTERNAL AUDIT OF THE BOND FINANCE DIVISION'S TRANSFERS TO THE HOUSING TRUST FUND

Attached is the Internal Audit Division's report on the Texas Department of Housing and Community Affairs (Department's) Bond Finance Division's (Division's) transfers to the Housing Trust Fund. The Division may not be calculating required transfers to the Housing Trust Fund in accordance with the requirements of the Texas Government Code. Chapter 2306.204-205 of the statute requires the Department to undergo an annual audit of its unencumbered fund balance, and to transfer any excess funds to the Housing Trust Fund as determined by using the calculation set out in this statute.

The Division currently calculates the amount of any potential transfers based on guidance they received from Moody's Investors Service (Moody's) in 2001. This guidance describes how Moody's determines "total bonded indebtedness," which includes considering all bonds regardless of rating, and excluding certain bonds that the Department is not obligated to repay. However, the statute requires that the highest rated bonds be excluded from the calculation and that all other bonds be included. The Department transferred approximately \$2.5 million from the bond program to the Housing Trust Fund in fiscal years 2000 and 2001, and has made no further transfers since 2001.

We recalculated the transfer amounts using the methodology outlined in the statute and determined that as much as an additional \$5.5 million may have been available to transfer to the Housing Trust Fund between fiscal years 2000 and 2002, but the calculation would yield no additional transfers since fiscal year 2002. The majority of the unencumbered funds are subject to the terms of the bond indentures which require the Department to meet certain conditions set out in the indentures before these funds can be transferred to other programs.

There may never be additional funds available to transfer to the Housing Trust Fund because the large amount of the Department's multifamily bonds adversely affects the calculation. It is also important to consider that the Division reported that \$12.9 million in funds from the bond program were



used to support other housing programs between fiscal years 2000 and 2004. This included \$1.9 million for the Bootstrap Program, which is financed by the Housing Trust Fund.

The Department has recently indicated that they believe the unencumbered fund balance should exclude amounts tied to the bond indentures. However, the statute does not define the term "unencumbered fund" nor provide guidance on what to include in the calculation of the unencumbered fund balance. As a result, we did not recalculate the unencumbered fund balances using this interpretation.

The Division is responsible for administering the Department's Mortgage Revenue Bond (MRB) programs. MRB programs provide below-market interest rate funds for single-family homebuyers and multifamily mortgage loans made to qualifying recipients. The Housing Trust Fund administers various single family programs, and provides funds to other programs administered by the Department. The goal of the Housing Trust Fund is to provide loans and grants to finance, acquire, rehabilitate, and develop decent and safe affordable housing. As of fiscal year end 2012, the Department had \$1.3 billion in single-family bonds outstanding and \$1.1 billion in multifamily bonds outstanding.

The objective of the audit was to determine if the Department is accurately calculating the portion of the unencumbered fund balance required to be transferred to the Housing Trust Fund in accordance with state statute. The audit scope was state fiscal years 2000 through 2012. Our fieldwork was conducted January 28, 2013 through February 22, 2013. The audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*.

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

Sincerely,



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

Sqd/ddm

cc: Tim Irvine, Executive Director  
Tom Gouris, Deputy Executive Director of Asset Analysis and Management  
Tim Nelson, Director of Bond Finance

## Executive Summary

The Department of Housing and Community Affairs' (Department) Bond Finance Division (Division) may not be calculating required transfers to the Housing Trust Fund in accordance with chapters 2306.204 and 2306.205 of the Texas Government Code. This statute requires the Department to undergo an annual audit of its unencumbered fund balance, and to transfer excess funds to the Housing Trust Fund based on a calculation set out in the statute. However, the Division may not have been calculating the transfer amount correctly since at least fiscal year 2000. As a result, as much as an additional \$5.5 million may have been available to transfer to the Housing Trust Fund between fiscal years 2000 and 2002. The majority of the unencumbered funds are subject to the terms of the bond indentures, which require the Department to meet certain conditions set out in the indentures before these funds can be transferred to other programs. It is also important to consider that the Division reports that \$12.9 million in funds from the bond program were used to support other housing programs between fiscal years 2000 and 2004, including programs normally funded by the Housing Trust Fund such as the Bootstrap Program.

In fiscal year 2001, the Division obtained a letter from Moody's Investors Service (Moody's) that was used as guidance in how to perform the transfer calculation. The guidance obtained from Moody's describes how Moody's determines "total bonded indebtedness," which includes considering all bonds regardless of rating, and excluding certain bonds that the Department is not obligated to repay. However, the statute requires that the highest rated bonds (AAA and Aaa) be excluded from the calculation and that all other bonds be included. The revised interpretation based on the guidance from Moody's has resulted in no transfers from the bond program to the Housing Trust Fund since 2001.

There were approximately \$2.5 million in transfers from the bond program to the Housing Trust Fund in fiscal years 2000 and 2001. Using the methodology outlined in the statute results in increased transfers in fiscal years 2000 to 2002, but no additional transfers after fiscal year 2002. This is because the large amount of the Department's multifamily bonds adversely affects the calculation. For example, in fiscal year 2012, the amount of the applicable multifamily bonds was over \$900 million. As a result, depending on the amount of the bonds, there may never be additional funds available to transfer to the Housing Trust Fund.

### **The Bond Finance Division and The Housing Trust Fund**

The Bond Finance Division is primarily responsible for administering the Department's mortgage revenue bond programs that provide below-market interest rate funds for single-family homebuyers and multifamily mortgage loans.

The Housing Trust Fund provides loans and grants to finance, acquire, rehabilitate, and develop affordable housing. The Housing Trust Fund administers various single-family programs, and also provides funds for other programs administered by the Department.

The Department has recently indicated that they believe the calculation of the unencumbered fund balance should exclude the amounts tied to the bonds. However, the statute does not define the term “unencumbered fund” nor does it provide guidance on what to include in the calculation of the unencumbered fund balance. As a result, we did not recalculate the unencumbered fund balances using this interpretation.

### **Other Key Points**

- The Division has not formally documented a policy regarding the methodology used to calculate the transfer amount.
- The Texas Government Code includes safeguards to prevent a transfer of funds if the transfer might result in an adverse effect on the Department's financial condition, or a downgrade in the rating of the Department's bonds. This requires that the Department obtain a recommendation to hold more funds in reserve from one of the nationally recognized bond rating agencies.

### **Summary of Recommendations**

The Division should:

- follow the requirements of the statute when calculating transfers to the Housing Trust Fund, and seek guidance regarding the interpretation of the statute if necessary.
- formally document the methodology used for calculating the portion of the unencumbered fund balance that should transfer to the Housing Trust Fund. The documented methodology should ensure that the calculation complies with the requirements of the Texas Government Code.
- consider discussing with the bond rating agency(s) whether a recommendation to retain additional funds is appropriate given the current financial condition of the Department's bonds. If so, the Division should obtain the recommendations, requirements and conditions of the bond rating agency(s) in writing.

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## ***Detailed Results***

### *Chapter 1*

## **The Bond Finance Division Should Ensure that the Requirements of Statute are Followed When Calculating Transfers to the Housing Trust Fund**

The Bond Finance Division (Division) may not be calculating the amount of funds available for transfer to the Housing Trust Fund in accordance with the Texas Government Code. The Division does not determine what portion of the bonds outstanding are rated in the highest long-term debt rating category and does not exclude those bonds from the calculation as required by the statute. In addition, the Division is not including all of the applicable multifamily bonds when performing the calculation. As a result, there have been no transfers from the Division to the Housing Trust Fund since fiscal year 2001.

The Texas Government Code Chapter 2306.205(a) states that:

“the housing finance division shall transfer to the housing trust fund an amount...equal to one-half of the housing finance division's unencumbered fund balances in excess of two percent of the division's total bonded indebtedness that is not rated on its own merits in the highest long-term debt rating category by one or more nationally recognized rating agencies.”

We recalculated the Housing Trust Fund transfer amount by including multifamily and single family bonds, but excluding any bonds rated in the highest long-term debt rating category, defined as AAA, Aaa, or an equivalent rating. Our recalculation resulted in as much as \$5.5 million in additional funds that could have transferred to the Housing Trust Fund between fiscal years 2000 and 2002, provided certain restrictions in the bond indentures were met. It is important to note that during this time period, \$12.9 million in proceeds from the bond program were reportedly used to fund down payment assistance loans and several other housing programs that are also supported by the Housing Trust Fund, such as the Bootstrap Program.

The Division changed the method of calculation in fiscal year 2001 because of guidance they requested from Moody's Investors Service (Moody's). However, this guidance merely describes “Moody's determination of ‘total bonded indebtedness’ when assessing the overall credit strength of a state housing finance agency.”

In addition, the Division does not have a documented policy for how to calculate the statutorily-required transfers to the Housing Trust Fund. The Division's current methodology was developed based on the January 18, 2001 letter from Moody's.

The Division should develop a methodology for calculating the transfer amount to the Housing Trust Fund that complies with the statute and should document and follow that methodology going forward.

Chapter 1-A

### **The Bond Finance Division Should Exclude the Highest Rated Bonds and Include the Multifamily Bonds When Calculating Total Bonded Indebtedness**

The Bond Finance Division is including the highest rated bonds when calculating total bonded indebtedness. The Division does not determine what portion of the bonds outstanding are rated in the highest long-term debt rating category and does not exclude those bonds from the Division's calculation of total bonded indebtedness.

In addition, the Division does not include the Department's multifamily bonds in the calculation of total bonded indebtedness. With the exception of one multifamily bond series during fiscal years 2000 through 2008 for the South Texas Rental Project, no multifamily bonds were included when calculating total bonded indebtedness.

In addition to the requirement to transfer half of the amount in excess of 2% of any unencumbered funds that exceed the total bonded indebtedness after subtracting the AAA and Aaa bonds and including the applicable multifamily bonds, the statute (Government Code 2306.205(c)) also provides for an alternative transfer amount under specific circumstances:

“If...the housing finance division's unencumbered fund balances exceed four percent of its total bonded indebtedness that is not rated on its own merits in the highest long-term debt rating category, the department shall transfer...all amounts in excess of that four percent.”

We recalculated the amount of the unencumbered fund balance that should have transferred to the Housing Trust Fund according to the statute. We used the same methodology the Bond Finance Division uses to determine the transfers to the Housing Trust Fund, but we excluded the bonds that were rated as AAA or the equivalent, and we included all other single family and multifamily bonds.

As a result, we determined that between fiscal years 2000 and 2002, as much as \$8 million could have transferred to the Housing Trust Fund using the criteria set out in the statute. The Division actually transferred only \$2.5 million to the Housing Trust Fund during this period. These transfers occurred in fiscal years 2000 and 2001. Consequently, the Department's transfers to the Housing Trust Fund were \$5.5 million less than possible over the 13-year period. (See Table 1.) The majority of the unencumbered fund balance is composed of bond funds that are in excess of the amounts required to meet the assets to liabilities test ratio of 102%, plus a small amount of unrestricted operating funds. The bond funds carry certain restrictions that are set out in the bond indentures and included

in the notes to the unencumbered fund balance report. These conditions must be met before the unencumbered funds can be used for other purposes.<sup>1</sup>

If the multifamily bonds that are not rated as AAA or the equivalent are included, it is unlikely that any funds will be available to transfer to the housing trust fund in future years. Our recalculation yielded possible transfers in fiscal years 2000 to 2002, and no additional transfers in subsequent years. This is because the amount of multifamily bonds is extremely high. For example, in fiscal year 2012, the amount of the applicable multifamily bonds was over \$900 million. If this situation continues, it is unlikely that the calculation will ever yield additional transfers to the Housing Trust Fund.

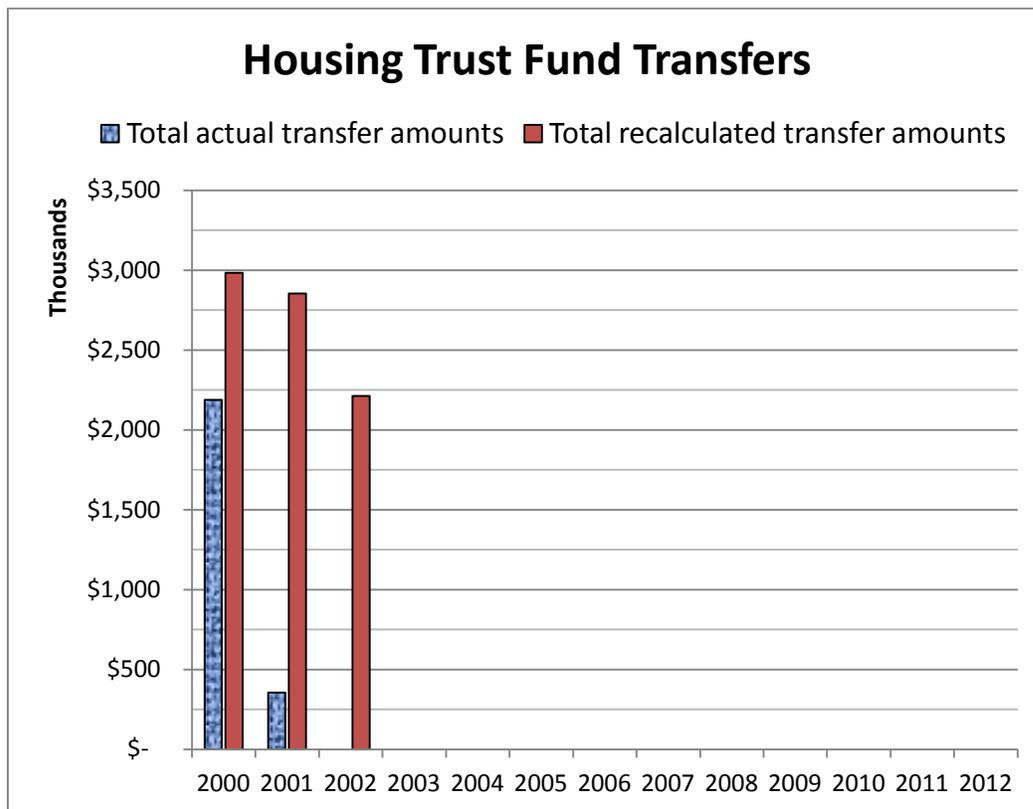


Table 1

It is important to note that the Department reports that some proceeds from the bond program were used to finance other housing programs during this period, including \$11 million for the Down-Payment Assistance Program and \$1.9 million for the Bootstrap

<sup>1</sup> Generally, the unencumbered fund balances cannot be distributed or utilized except when certain conditions have been met within the bond trust indentures, including filing a statement of projected revenues that projects that anticipated cash flows will be sufficient to pay Department expenses of the Division and aggregate debt service through the maturity of the bonds and to maintain all other reserve fund requirements of the respective bond trust indentures. (*Notes to the Computation of Unencumbered Fund Balances as of August 31, 2012, Note #2, page 5*)

Program between fiscal years 2001 and 2004. (The Bootstrap Program is supported by the Housing Trust Fund.) However, we did not audit these transfers.

The unencumbered fund balance used in the calculation is determined by the Department's Financial Administration Division as part of the Department's Annual Financial Report (AFR) and is audited by the Department's external auditors. In fiscal years 2011 and 2012, the State Auditor's Office performed this audit. This requirement is set forth in Texas Government Code Chapter 2306.204(a), which states:

“An independent auditor shall annually conduct an audit of the housing trust fund to determine the amount of unencumbered fund balances that is greater than the amount required for the reserve fund.”

The Department has recently indicated that they believe the calculation of the unencumbered fund balance should exclude the amounts tied to the bonds. However, the statute does not define the term “unencumbered fund” nor does it provide guidance on what to include in the calculation of the unencumbered fund balance. As a result, we did not recalculate the unencumbered fund balances using this interpretation.

## **Recommendation**

The Division should follow the requirements of the statute when calculating transfers to the Housing Trust Fund, and should seek guidance regarding the interpretation of statute if necessary.

## **Management's Response**

*Management agrees that it needs to commit to writing and implement a comprehensive standard operating procedure to clarify how staff will ensure that the requirements of TEX. GOV'T CODE, §§2306.201-205 are correctly and timely carried out and documented. Tim Nelson, Director of Bond Finance is the person designated to oversee the completion of this task, and the updated SOP will be completed and in place by August 30, 2013. Management agrees that all bond indebtedness issued by the Department other than bond indebtedness rated AAA or Aaa must be used in calculating the possible unencumbered fund balance transfers provided for in TEX. GOV'T CODE, §2306.205. As stated above, Chapter 1-A, the Department's bond counsel and Department staff advised that amounts that are subject to the lien of a trust indenture are encumbered and, accordingly, should not be treated as being included in the unencumbered fund balance. We understand that Internal Audit performed its audit based on prior years' audited calculations, but as noted in management's response, it appears that those prior calculations included amounts subject to indentures as being within the unencumbered fund balance. The new procedures staff will prepare will not treat amounts within indentures in that manner.*

*Chapter 1-B*

**The Bond Finance Division Should Formally Document the Methodology Used to Calculate Transfers to the Housing Trust Fund**

The Division does not have a policy, or other documented methodology, for performing the calculation that determines what portion of the unencumbered fund balance should be transferred to the Housing Trust Fund according to statute.

The Division bases their calculation methodology on a letter received from Moody's Investors Service (Moody's) dated January 18, 2001. (See Appendix D.) The letter is "a response to your [the Department's] request for clarification on Moody's determination of 'total bonded indebtedness' when assessing the overall credit strength of a state housing finance agency." It explains how Moody's defines "total bonds outstanding" and "total bonded indebtedness". It also provides general guidelines on Moody's criteria for determining a housing finance agency's total indebtedness when assessing its overall financial position.

Some of the criteria described in the letter are in conflict with the Texas Government Code. The letter states:

"In Moody's opinion, the total bonded indebtedness of an agency should incorporate any obligation for which the agency may potentially apply its fund balances to support the program, even if the programs are generally self-supporting. As such, Moody's calculation of an agency's debt position typically includes most types of debt obligations, even unenhanced Aaa-rated debt where the likelihood of the agency tapping its unrestricted fund balances to support the program is minimal."

The Moody's guidance suggests including AAA-rated debt in the Department's calculation of total bonded indebtedness. However, the Texas Government Code requires that, for the purposes of determining the amount of the unencumbered fund balance to be transferred to the Housing Trust Fund, the Department should consider only the "total bonded indebtedness that is not rated on its own merits in the highest long-term debt rating category..."

By using the Moody's letter as guidance in calculating total bonded indebtedness, the Division has been calculating the Housing Trust Fund transfer amount in a manner that may not comply with statute and that has resulted in no funds transferring to the Housing Trust Fund since fiscal year 2001.

**Recommendation**

The Division should formally document the methodology used for calculating the portion of the unencumbered fund balance that should transfer to the Housing Trust Fund. The

documented methodology should ensure that the calculation complies with the requirements of the Texas Government Code.

### **Management's Response**

*Management agrees that it needs to commit to writing and implement a comprehensive standard operating procedure to clarify how staff will ensure that the requirements of TEX. GOV'T CODE, §§2306.201-205 are correctly and timely carried out and documented. Tim Nelson, Director of Bond Finance is the person designated to oversee the completion of this task, and the updated SOP will be completed and in place by August 30, 2013. Management agrees that all bond indebtedness issued by the Department other than bond indebtedness rated AAA or Aaa must be used in calculating the possible unencumbered fund balance transfers provided for in TEX. GOV'T CODE, §2306.205. As stated above, Chapter 1-A, the Department's bond counsel and Department staff advised that amounts that are subject to the lien of a trust indenture should be considered encumbered and, accordingly, should not be treated as being included in the unencumbered fund balance. We understand that Internal Audit performed its audit based on prior years' audited calculations, but as noted in management's response, it appears that those prior calculations included amounts subject to indentures as being within the unencumbered fund balance. The new procedures staff will prepare will not treat amounts within indentures in that manner.*

*Chapter 2*

## **The Bond Finance Division Should Consider the Recommendations and Conditions of the Bond Rating Agency**

The Division provided the 2001 letter from Moody's (see Chapter 1) as support for the methodology used to calculate transfers to the Housing Trust Fund. The Texas Government Code includes safeguards to prevent a transfer of funds if the transfer might result in an adverse effect on the Department's financial condition, or a downgrade in the rating of the Department's bonds.

Chapter 2306.205(e) of the Texas Government Code, subsection (e) states:

“If, at the time an annual audit required by Section 2306.204 [the unencumbered fund balance] is concluded, a nationally recognized rating agency has recommended that the housing finance division increase the amount of its unencumbered fund balances to achieve or maintain a financially sound condition or to prevent a decrease in the long-term debt rating maintained on all or a portion of the housing finance division's bond indebtedness, the housing finance division may not make further annual transfers to the housing trust fund until all requirements and conditions of the rating agency have been met.”

Once the Division has determined the methodology that should be used to calculate potential transfers to the Housing Trust Fund (see Chapter 1), and calculates the transfer correctly, it is possible that funds should be transferred that are not available, or that a required transfer could adversely affect the Department's financial condition or its bond ratings. If so, this condition could be avoided by following the requirements of subsection (e) above.

### **Recommendation**

The Division should consider discussing with a bond rating agency whether a recommendation to retain additional funds is appropriate given the current financial condition of the Department's bonds and the requirements of the bond indentures. If so, the Division should obtain the recommendations, requirements and conditions of the bond rating agency in writing.

### **Management's Response**

*Written confirmation of such matters will be sought from the rating agencies in the future, if applicable; if the rating agencies are unwilling or unable to provide a dispositive statement the Department will use other reasonable measures, such as correspondence with its financial advisors to document any such conclusions. This*

*An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund*

*methodology will also be addressed in the SOP on the unencumbered fund balance which Tim Nelson, Director of Bond Finance will develop, to be completed by August 30, 2013.*

*It is also noted with regard to the possible obtaining of written advice of the requirements of rating agencies for the establishment and maintenance of reserves or other dedicated resources to support bond indebtedness, that as a general rule such agencies will not provide such written direction. They establish, and frequently change, stress tests and other analyses that they perform in connection with rated debt securities, but performance under such analytics is not an assurance of maintaining a particular rating status and deficient performance under such analytics does not automatically result in a downgrade in rating status. Moreover, the presence of significant amounts of variable rate indebtedness within the Department's overall bond indebtedness and contractual obligations under related interest rate risk hedging instruments present additional related risks. Rating agencies, the Department, and the Department's liquidity provider (the Comptroller of Public Accounts) generally desire such interest rate risks to be addressed not only through the continued stable performance of the underlying bond indebtedness but through the dedication of reserves to address contingencies relating to changing interest rate environments.*

*Appendix A*

## **Objectives, Scope and Methodology**

### **Objectives**

To determine if the Department is accurately calculating the portion of the unencumbered fund balance required to be transferred to the Housing Trust Fund in accordance with state statute.

### **Scope**

The audit scope was state fiscal years 2000 through 2012.

### **Methodology**

We obtained a preliminary understanding of the Bond Finance Division's fund transfer process by:

- a) interviewing pertinent management and staff,
- b) reviewing background information,
- c) identifying manual and automated processes, critical points and activities directly related to the calculation of the statutorily-required transfer to the Housing Trust Fund,
- d) identifying risks and the associated controls, and
- e) collecting various types of evidence to document our understanding.

We did not recalculate the unencumbered fund balance or the amount of the bonds outstanding because these amounts were previously audited by the Department's external auditors as part of the Department's Annual Financial Reports. We did not verify transfers made from the bond program to other housing programs as reported by the Department during the audit, as these issues were not within our audit scope.

More specifically, we:

- a) reviewed Texas Government Code Chapters 2306.204 and 2306.205,
- b) reviewed the State Auditor's Office Report # 08-043,
- c) interviewed staff in the Financial Administration Division to determine how the unencumbered fund balance is calculated,
- d) interviewed staff in the Bond Finance Division to determine how the transfer amount is calculated,
- e) interviewed staff in the Legal Division to determine the appropriate interpretation of the Texas Government Code,
- f) obtained bond ratings for all of the Department's rated bonds over the past 13 years, and
- g) recalculated the transfer amount by excluding AAA or Aaa rated bonds and including multifamily bonds that were not rated AAA or Aaa.

## *An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund*

We used the following documents as criteria:

- a) Texas Government Code Chapters 2306.204 and 2306.205,
- b) The Department's Computation of Unencumbered Fund Balances as of August 31, 2012, and Independent Auditors' Report,
- c) The Bond Finance Division's calculated amounts of required transfers to the Housing Trust Fund at fiscal year end for fiscal for fiscal years 2000 through 2012
- d) The Department's bond ratings at fiscal year end for fiscal years 2000 through 2012
- e) Moody's letter dated January 18, 2001

### **Type of Audit**

This audit was a performance audit of the Bond Finance Division.

### **Report Distribution**

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

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

### **Project Information**

Audit fieldwork was conducted from January through February 2013. We conducted this audit in accordance with *Generally Accepted Government Auditing Standards*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with *the International Standards for the Professional Practice of Internal Auditing*.

The following staff performed this audit:

Derrick Miller, Project Manager  
Nicole Elizondo, CFE, CICA

### **Appreciation to Staff**

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

*Appendix B*

**Background**

The Bond Finance Division (Division) is responsible for administering the Department's Mortgage Revenue Bond (MRB) programs. MRB programs provide below-market interest rate funds for single-family homebuyers and multifamily mortgage loans made to qualifying recipients. The Department issues tax-exempt municipal bonds, which yield tax exempt interest income to bondholders, but at below-market interest rates. This creates the subsidy required to achieve and offer below-market interest mortgage rates. The Department's authority to issue MRBs is derived from its enabling legislation and certain provisions of the Internal Revenue Code. The Department also has the ability, under certain circumstances, to restructure existing bonds issued and create additional funds for new single-family mortgage loans. As of fiscal year end 2012, the Department had \$1.3 billion in single-family bonds outstanding and \$1.1 billion in multifamily bonds outstanding.

The Housing Trust Fund administers various single-family programs, and provides funds to other programs administered by the Department. The goal of the Housing Trust Fund is to provide loans and grants to finance, acquire, rehabilitate, and develop decent and safe affordable housing.

Texas Government Code Chapter 2306.205 requires that the Housing Finance Division (Bond Finance Division) of the Department annually transfer to the Housing Trust Fund a portion of the unencumbered funds meeting certain thresholds and criteria.

*Appendix C*

**Texas Government Code, Chapter 2306**

Sec. 2306.204. INDEPENDENT AUDIT OF HOUSING TRUST FUND. (a) An independent auditor shall annually conduct an audit of the housing trust fund to determine the amount of unencumbered fund balances that is greater than the amount required for the reserve fund.

(b) The independent auditor shall submit the audit report to the board not later than December 31 of each year.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2306.205. TRANSFER OF MONEY TO HOUSING TRUST FUND. (a) Except as provided by Subsections (c), (d), and (e), not later than January 10 of each year the housing finance division shall transfer to the housing trust fund an amount, as determined by the audit report prepared under Section 2306.204, equal to one-half of the housing finance division's unencumbered fund balances in excess of two percent of the division's total bonded indebtedness that is not rated on its own merits in the highest long-term debt rating category by one or more nationally recognized rating agencies.

(b) The department shall determine the unencumbered fund balance under Subsection (a) according to the debt rating criteria established for housing finance agencies by one or more nationally recognized rating agencies.

(c) If, at the time an annual audit required by Section 2306.204 is concluded, the housing finance division's unencumbered fund balances exceed four percent of its total bonded indebtedness that is not rated on its own merits in the highest long-term debt rating category, the department shall transfer not later than January 10 of the next year all amounts in excess of that four percent.

(d) If, at the time an annual audit required by Section 2306.204 is concluded, a nationally recognized rating agency has recommended that the housing finance division maintain unencumbered fund balances in excess of the amount permitted by Subsection (a) to achieve or maintain a rating of at least Aa/A+ on all or a portion of the bonded indebtedness of the housing finance division that is issued under an open indenture or an open flow of funds, the department shall transfer not later than January 10 of the next year all amounts in excess of the amount required by the rating agency to be held as unencumbered fund balances.

*An Internal Audit of the Bond Finance Division's Transfers to the Housing Trust Fund*

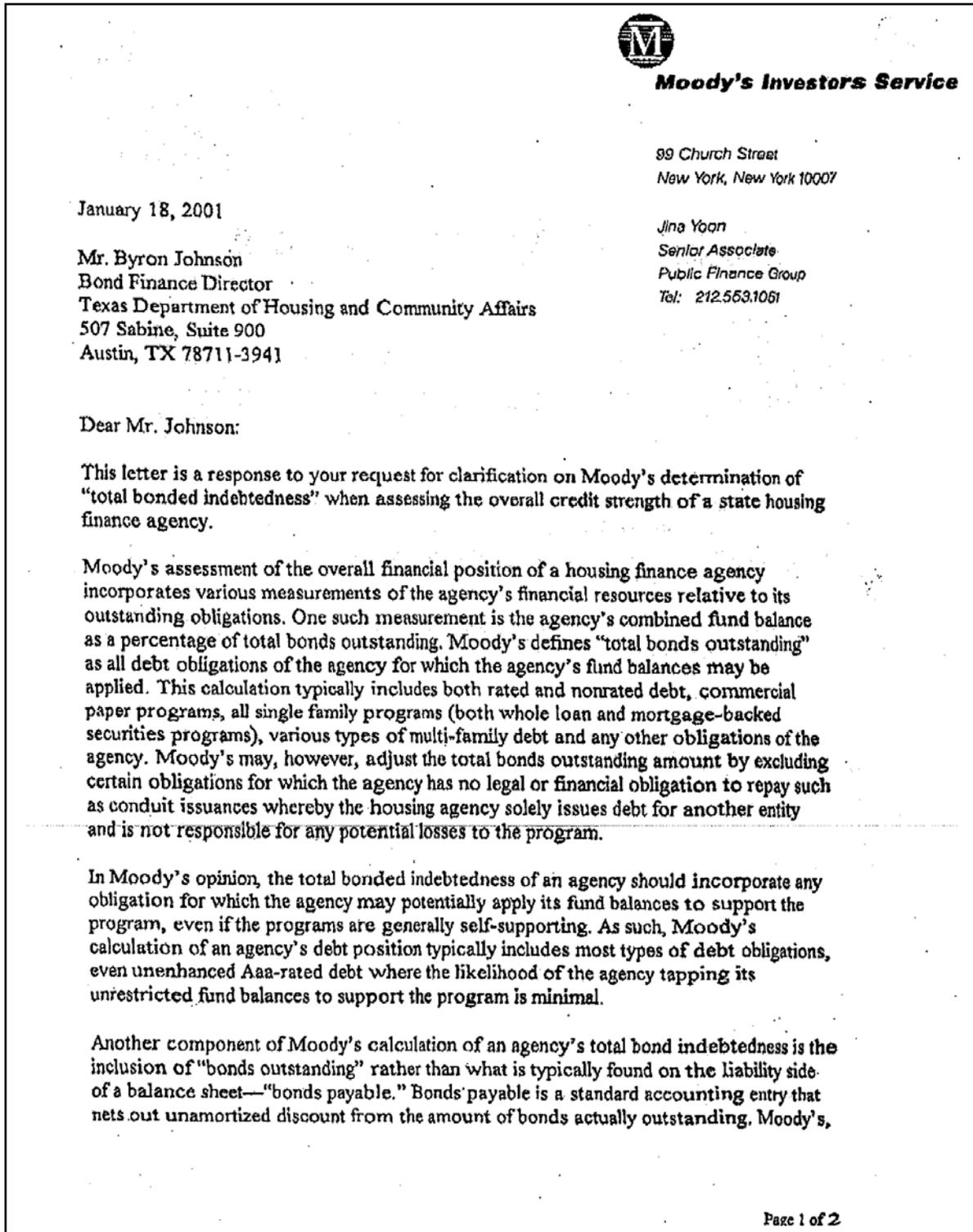
(e) If, at the time an annual audit required by Section 2306.204 is concluded, a nationally recognized rating agency has recommended that the housing finance division increase the amount of its unencumbered fund balances to achieve or maintain a financially sound condition or to prevent a decrease in the long-term debt rating maintained on all or a portion of the housing finance division's bonded indebtedness, the housing finance division may not make further annual transfers to the housing trust fund until all requirements and conditions of the rating agency have been met.

(f) In addition to the money transferred into the housing trust fund under this section, and subject to Subsection (e), the department shall transfer into the fund the amount of any origination fee, asset oversight fee, and servicing fee the department or the Texas State Affordable Housing Corporation receives in relation to the administration of its 501(c)(3) bond program established pursuant to Section 2306.358 that exceeds the amount needed by the department or the Texas State Affordable Housing Corporation to pay its operating and overhead costs and fund reserves, including an insurance reserve or credit enhancement reserve established by the board in administering the program.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 980, Sec. 31, eff. Sept. 1, 1997.

Appendix D

Correspondence from Moody's Investors Service – January 18, 2001





**Moody's Investors Service**

99 Church Street  
New York, New York 10007

Jina Yoon  
Senior Associate  
Public Finance Group  
Tel: 212.553.1051

however, is more interested in the amount of debt that is truly owed, i.e. the aggregate amount of principal outstanding that bondholders would be due as of the audit date if all bonds were to be due and payable. Because "bonds outstanding" is often higher than the reported "bonds payable," the adjusted number oftentimes results in a higher amount of liabilities:

While this letter is intended to provide you with general guidelines on Moody's criteria for determining an agency's total indebtedness when assessing its overall financial position, Moody's will make certain adjustments to these criteria on a case-by-case basis depending upon the circumstances of an individual agency.

If you have any questions about the issues raised in this letter or about Moody's criteria in general, please do not hesitate to call me.

Sincerely,

Jina Yoon

3b



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

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May 2, 2013

*Writer's direct phone #512.475.3813*  
*Email: [sandy.donoho@tdhca.state.tx.us](mailto:sandy.donoho@tdhca.state.tx.us)*

RE: AN INTERNAL AUDIT OF ASSET MANAGEMENT (REPORT #13-1055)

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

Attached is the Internal Audit Division's report on the Texas Department of Housing and Community Affairs (Department's) Asset Management Division (Asset Management). Asset Management adds value to the Department by providing oversight of development performance in order to minimize the Department's risk.

We evaluated the performance of selected Asset Management activities and found that Asset Management effectively performs their assigned duties but there are opportunities to improve consistency in how they perform these duties. Asset Management is using some guidance developed for the divisions that were previously charged with these tasks. They have developed some policies and procedures of their own, but these policies and procedures have not yet been finalized. Enhancing their policies, procedures and processes will help increase consistency and enable Asset Management to better track their performance.

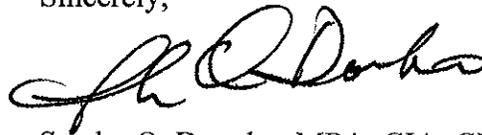
Asset Management is a newly-created division which oversees development performance for all multifamily properties and performs collections on single-family accounts. This oversight includes performing a variety of activities such as processing cost certifications, analyzing financial information, and working with troubled properties and delinquent borrowers to return them to good standing with the Department. Asset Management monitors and processes all post-carryover activities for developments involving housing tax credits, HOME funds, Housing Trust Funds and Neighborhood Stabilization (NSP) funds.

The objectives of this audit were to determine if Asset Management provides sufficient oversight of development performance in order to minimize the Department's risk and to determine if cost certifications are processed accurately, completely and in a timely manner. The audit scope was the inception of Asset Management (June 2012) through March 2013. Fieldwork was conducted February 2013 through April 2013. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*.



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

Sincerely,

A handwritten signature in black ink, appearing to read "S. Q. Donoho". The signature is fluid and cursive, with a large initial "S" and "Q".

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

SQD/mbs

cc: Tim Irvine, Executive Director  
Tom Gouris, Deputy Executive Director of Asset Analysis and Management  
Cari Garcia, Director of Asset Management

## **Executive Summary**

The Asset Management Division (Asset Management) was created in June 2012. Asset Management adds value to the Texas Department of Housing and Community Affairs (Department) by providing oversight of development performance in order to minimize the Department's risk. This oversight includes performing a variety of activities such as processing cost certifications, conducting financial analyses, developing solutions for troubled properties and delinquent borrowers, and conducting quarterly financial reviews. Although Asset Management effectively performs their assigned activities, there are inconsistencies in the way that these activities are performed. Management is using some guidance originally developed for other divisions previously charged with the same responsibilities.

They have developed policies and procedures for some of their activities, but the policies and procedures have not been finalized. This has resulted in some inconsistencies.

Enhancements should be made in the policies, procedures and processes used by Asset Management staff to perform their duties. Improving and finalizing Asset Management's policies and procedures would increase consistency and enable management to better track the performance of these activities.

Asset Management processes cost certifications accurately and completely. However, we were unable to determine if cost certifications are performed in a timely manner due to the limited information tracked by Asset Management staff. Asset Management also performs financial analyses when processing cost certifications and when considering ownership transfer requests. In addition, Asset Management has recently started performing quarterly financial reviews of select properties to assess their condition.

Asset Management includes an asset resolution section developed specifically to deal with troubled properties and delinquent borrowers. We found that the single-family asset resolution activities are performed as expected but are not always performed consistently and in accordance with the guidance used by Asset Management. We were unable to evaluate the multifamily asset resolution process due to limited criteria.

### **Summary of Recommendations**

Asset Management should:

- develop and document more detailed guidance for conducting financial analyses of ownership transfers, including the methodology used and the results expected,
- finalize their policies and procedures and ensure they communicate them to staff to ensure consistency,

#### **Asset Management**

Asset Management is a newly created division responsible for the oversight of development performance for all multifamily properties. In addition, Asset Management performs collections and works with single-family owners to develop repayment plans.

Asset Management monitors and processes all post-carryover activities for developments involving Housing Tax Credits, HOME funds, Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds.

Asset managers work with development owners and the Department's Asset Review Committee to develop workout solutions for troubled or "at-risk" developments.

*An Internal Audit of Asset Management*

- continue to work with the development owners to ensure timely completion of the cost certification process,
- maintain documentation regarding additional information requested or received if tracking the timeliness of the cost certification process is required or if the information is helpful, and
- perform single-family asset resolution activities consistently and establish processes for multifamily asset resolution activities.

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## **Detailed Results**

### *Chapter 1*

## **Expectations should be Clearly Defined, Communicated and Consistently Applied**

Since its inception in June 2012, the Asset Management Division (Asset Management) has added value to the operations of the Texas Department of Housing and Community Affairs (Department) by performing activities that help development owners and homeowners achieve compliance with the terms of the loans or land use restriction agreements (LURAs), and by ensuring that properties are transferred to owners who are financially able to purchase and maintain the development. They also process cost certifications so that development owners can request the final allocation of their tax credits. However, because Asset Management is a relatively new division in the Department, they have not fully developed the processes, policies or procedures that help prevent inconsistencies in how activities are performed. In addition, the existing policies and procedures have not been consistently applied.

Asset Management has not developed specific criteria for performing the financial analysis conducted when processing an ownership transfer request and has not finalized the division's standard operating procedures. Financial analyses are generally performed when processing ownership transfer requests but they are not performed in a consistent manner. For example, the financial information communicated to management was sometimes the prospective owner's net worth or net income and sometimes the prospective owner's cash assets. Some financial information was not communicated to management at all. Consistency in performing the financial analysis and other asset management tasks may be enhanced by clearly defining management's expectations.

Asset Management's standard operating procedures are in draft form and have not been finalized. Policies and procedures are internal controls that help ensure that management's directives are carried out. Without finalizing and formally communicating policies and procedures to staff, the staff may not be performing their duties consistently or in the manner intended by management.

### *Chapter 1-A*

## **Develop and Communicate Criteria for Performing Financial Analyses**

Asset Managers perform a financial analysis when processing ownership transfer requests. Ownership transfer requests are submitted to the Department by the development owners in order to seek approval for transferring an ownership interest in a property from one entity or individual to another. The analysis is a high-level overview of the borrower's financial statements. The financial analysis performed as part of the ownership transfer request determines whether the new owner has the sufficient funds available to purchase and maintain the development. These financial analyses are usually performed and communicated to management but are not always performed in a consistent manner.

We tested a judgmental sample of thirteen transactions to determine if Asset Management is performing a financial analysis when processing ownership transfer requests and if the results of the analysis are communicated to management. Two of thirteen (15.4%) transactions we tested did not have evidence of a financial analysis although one was required. Financial analyses for three of thirteen (23.1%) of the

## *An Internal Audit of Asset Management*

transactions were not communicated to management. In addition, the methodology used to perform a financial analysis varies. Some of the analyses focus on cash assets and others focus on net worth or net income.

The criteria for performing financial analyses as part of the ownership transfer process are not specific. Asset Management's draft standard operating procedures emphasize the need for the Department to determine the "economic viability of purchasers" and the "availability of funds to purchase and maintain the development." The draft procedure states that the asset manager will consider the financial review in their overall analysis when making a recommendation for ownership transfer, and provide the results of the financial analysis with the ownership transfer documents routed to management for approval. However, the draft procedure does not provide guidance on how to conduct a financial analysis, it only states that the financial records and reports will be reviewed. Also, the draft procedure does not indicate what type of financial information to provide (cash assets, net worth or both.)

Without more specific criteria, the financial analyses may not provide management with the information it needs to properly evaluate a prospective owner's financial ability to purchase and maintain a development. This could result in the transfer of an ownership interest in a property to a non-qualified owner or partner.

### **Recommendation**

Asset Management should develop and document more detailed guidance for conducting financial analyses of ownership transfers, including the methodology used and the results expected.

### **Management's Response**

*Management agrees that the SOP for Ownership Transfers should be revised to include more in-depth guidance on how to complete and document the financial analysis review. Division Director Cari Garcia is responsible for completing this SOP and it should be in final form by July 31, 2013.*

Chapter 1-B

## **Finalize and Approve the Policies and Procedures for Asset Management**

Asset Management drafted standard operating procedures that address many of the various activities they perform. However, these policies and procedures have not been approved and finalized. The Department's standard operating procedures development system (SOP 1100.01) requires that each manager or team lead develop procedures that are applicable to their program or areas of responsibility and ensure they are current. Without finalizing and formally communicating policies and procedures to Asset Management staff, there is a risk that staff may not be performing their job duties as intended and inconsistencies may occur.

### **Recommendation**

Asset Management should finalize their policies and procedures and ensure they communicate them to staff to ensure consistency.

**Management's Response**

*Management agrees that these need to be finalized and communicated to staff to ensure consistency. Division Director Cari Garcia is responsible for ensuring that all SOPs are updated and finalized by August 30, 2013.*

*Chapter 2*

## **Improve the Timeliness and Tracking of Cost Certification Processing**

Asset Management is processing cost certifications accurately and completely, however complete information necessary to fully evaluate the timeliness of the cost certification process was not readily available. Development owners are required to submit a cost certification in order to request the final allocation of tax credits. After review of the cost certification, the Department issues Internal Revenue Service (IRS) Form 8609 to owners of residential low-income developments awarded tax credits. Asset Management estimates that more time is spent processing cost certifications than any of the other activities they perform.

We tested twenty cost certifications completed by Asset Management and found that they were processed completely and accurately. For all twenty (100%) of the cost certifications tested, each had:

- all of the required documentation necessary to process the cost certification and issue IRS Form 8609,
- a completed IRS Form 8609, and
- a financial analysis which was communicated to management prior to the issuance of IRS Form 8609.

We also tested the same twenty cost certifications for timeliness. However, the information necessary to evaluate the timeliness of the cost certification process was not readily available because Asset Management does not consistently document when they request and receive additional information needed to process a cost certification.

With the information that was available, we were able to determine the total number of days to complete the cost certification process for two (10.0%) of the twenty cost certifications we tested. One of the cost certifications took 163 days to complete and the other took 251 days to complete. This includes the time which Asset Management spent on the cost certification process, but excludes any time spent waiting for required documentation from the development owner.

We were able to determine the total number of days it takes Asset Management to issue IRS Form 8609 after the receipt of all required documentation for six (30.0%) of the twenty cost certifications we tested. Two were completed in 45 days or less, two were completed in 90 days or less, and two were completed in 200 days or less. The cost certification manuals developed by the Department's Real Estate Analysis Division and used by Asset Management to perform cost certifications state that IRS Form 8609 will be issued within 90 days of receipt of all required documentation.

### **Recommendation**

Asset Management should:

- continue to work with the development owners to ensure timely completion of the cost certification process, and
- maintain documentation regarding additional information requested or received if tracking the timeliness of the cost certification process is required or if the information is helpful.

## *An Internal Audit of Asset Management*

### **Management's Response**

*Management will continue to work with development owners to ensure timely completion of the cost certification process and agrees that the tracking mechanism for assessing the timeliness of processing cost certifications should be improved. This will be completed through our newly functional Asset Management Database (Access) that was put into operation on 3/1/13. Additional guidance on the expectations for including comments and updating this system will be provided to staff by 5/30/13. Division Director Cari Garcia is responsible for ensuring that the implementation of the new system is complete and provides a better tracking of the timeliness of the issuance of 8609s and will assess and report on its effectiveness by September 30, 2013.*

Chapter 3

## Enhance Asset Resolution Activities

The asset resolution section of Asset Management oversees troubled properties and works with delinquent borrowers in order to get them back in good standing with the Department. Asset resolution activities add value by working with development owners to find solutions for the challenges the owner may be encountering in repaying a loan or complying with other program requirements. Asset resolution handles both single-family and multifamily properties. Guidance is available for single-family asset resolution activities, but this guidance is not consistently followed. Single-family asset resolution staff follow procedures that were originally developed for the Department's loan servicing function. There is limited guidance in place for multifamily asset resolution activities. As a result, we were unable to assess multifamily asset resolution activities.

Asset resolution activities have been successful in bringing troubled properties back into compliance and collecting from delinquent borrowers. Recently, Asset Management, working with the Department's HOME Division, proposed a plan to the Department of Housing and Urban Development (HUD) to resolve a 2009 monitoring finding related to several HOME properties that were out of compliance. Because of Asset Management's efforts, two of eight properties identified as non-compliant during the 2009 HUD monitoring visit were removed from HUD's list of noncompliant properties and the Department was not required to reimburse HUD for these properties.

Asset resolution activities include overseeing property performance, developing action plans, making recommendations to the Asset Review Committee, and working with property owners and other external parties to resolve challenges associated with the troubled properties. In addition, asset resolution markets and sells properties to buyers in order to maintain the period of affordability required by the original loan or the LURA. Asset resolution activities are complex because each deal is unique and a solution designed to resolve the issues associated with one property may not be appropriate for another property.

Because guidance is available for the single-family asset resolution activities, we were able to test asset resolution activities for a judgmentally-selected sample of twenty delinquent single-family loan accounts. We found that the loan servicing procedures used by asset resolution staff are not followed consistently.

For example:

- Delinquent borrowers that are on repayment plans are not sent reminder notices.
- Nine of twenty accounts (45.0%) were not sent delinquency letters and five of eleven letters (45.5%) that were sent were not signed.
- The "comments" entered into the MITAS Loan Servicing System are detailed and informative. However, two of the twenty accounts (10%) were not updated to reflect why action was not taken on a loan.

### Asset Review Committee

The Asset Review Committee (Committee) oversees the development of asset-specific strategies to address the risk of defaults or properties falling into non-compliance. The Committee may choose to implement debt forgiveness, charge-off, forbearance, loan modification, pre-foreclosure sale, deed-in-lieu of foreclosure, foreclosure, or other legal or equitable remedies available to the Committee. It also makes decisions regarding the transfer, acquisition and disposition of all real, personal, or mixed property, or an interest in property owned by the Department.

The Committee is comprised of six Department employees designated by the executive director and advised by the Legal Services Division.

## *An Internal Audit of Asset Management*

- Two significantly delinquent borrowers (2,008 days late and 2,220 days late) had verbal repayment agreements although verbal repayment agreements are not allowed once a borrower is more than 120 days delinquent.

Because single-family asset resolution efforts focus on collecting from the borrowers that are most likely to pay, not all procedures in the currently used guidance may be performed. However, when asset resolution activities are not performed consistently, collection efforts may not be as efficient as possible, loan delinquencies may increase and corrective action on poor performing loans may not be timely.

### **Recommendation**

Single-family asset resolution activities should be performed consistently and processes should be established for multifamily asset resolution activities.

### **Management's Response**

*Management agrees that SOPs need to be revised and/or implemented for both single family and multifamily asset resolution; however, the multifamily strategies will continue to be much more property specific. Division Director Cari Garcia is responsible for ensuring that SOPs for resolution are updated and finalized by September 30, 2013.*

## **Appendix A**

### **Objectives**

The objectives of this audit were to determine if:

- a) the Asset Management Division provides sufficient oversight of development performance in order to minimize the Department's risk, and
- b) cost certifications are processed accurately, completely and in a timely manner.

### **Scope**

The scope of this audit was the inception of the Asset Management Division (June 2012) through March 31, 2013.

### **Methodology**

A preliminary understanding of the Asset Management Division was developed in order to determine the project objectives by:

- interviewing Asset Management staff,
- reviewing background information related to asset management,
- observing processes performed by Asset Management staff, and
- performing a project-level risk assessment.

The following tests were conducted to meet the audit objectives:

- We compared the percentage of transactions completed to the number of transactions submitted to the Department for select activities identified during the risk assessment.
- We determined if financial analyses were performed by reviewing supporting documentation including: review sheets, spreadsheets and the related write-ups for thirty-three transactions.
- We determined if the quarterly financial reviews were used to assess properties by reviewing completed review forms and related supporting documentation for a judgmentally-selected sample of twenty-five items.
- We tested a sample of twenty cost certifications:
  - to determine if the cost certifications were processed accurately we evaluated whether they were processed according to criteria set forth in the Texas Administrative Code Subchapter E, Asset Management's Standard Operating Procedure, and Asset Management's review sheet,
  - to determine if cost certifications were completely processed we verified that the IRS Forms 8609 were issued, and
  - to determine if cost certifications were processed in a timely manner we calculated and analyzed the time that elapsed from the time the cost certification was received by the Department to the time the 8609 was issued, however we were unable to determine timeliness in all instances due to a lack of available data.

## *An Internal Audit of Asset Management*

- We evaluated single-family asset resolution by testing accounts for twenty borrowers to determine if collection calls were made or attempted, notices were sent, and required documentation was prepared.

We were unable to assess multifamily asset resolution activities due to limited criteria by which to measure this activity.

### **Criteria**

The following documents were used as criteria:

- Texas Administrative Code Title 10, Part 1, Chapter 10, Subchapters A and E,
- Asset Management Division's draft standard operating procedures,
- 2012 cost certification application spreadsheet,
- Housing Tax Credit Program's Cost Certification Procedures Manual,
- Housing Tax Credit Exchange Program's Cost Certification Procedures Manual,
- cost certification review tool,
- IRS Form 8609,
- instructions for IRS Form 8609,
- 120-Day plus delinquency procedures,
- Asset Management's quarterly financial review form,
- Housing Tax Credit Exchange Program's sub-award contract,
- Tax Credit Assistance Program's written agreement.

### **Type of Audit**

This audit was a performance audit of the Asset Management Division.

### **Report Distribution**

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

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

### **Project Information**

We conducted audit fieldwork from February 2013 through April 2013. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## *An Internal Audit of Asset Management*

The following staff performed this audit:

- M. Betsy Schwing, CPA, CGMA, CFE, Project Manager
- Nicole Elizondo, CFE, CICA
- Derrick Miller

### **Appreciation to Staff**

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

4

**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JULY 25, 2013**

Presentation and Discussion of the Status of External Audits.

**REPORT ITEM**

There have been ten (10) external audits or monitoring visits scheduled or completed during the current fiscal year.

**BACKGROUND**

There have been ten (10) external audits or monitoring visits so far this fiscal year. One of these reports was previously discussed at the January audit committee meeting. We received reports on six (6) more of these visits since the last audit committee meeting.

- KPMG audited the expenditure of federal awards as part of the State's Comprehensive Annual Financial Report for fiscal year 2012.
- The Department of Public Safety reviewed the Section 8 Program's use of the criminal history record information, which is used to conduct criminal background checks.
- The Department of Energy (DOE) conducted an on-site monitoring of the Weatherization Assistance Program.
- HUD performed a Section Eight Management Assessment Program (SEMAP) Review of the Section 8 Program.
- The State Auditor's Office (SAO) conducted a SAS 119 review to verify data from the Section 8 Program prior to entry into the Department of Housing and Urban Development's (HUD's) Real Estate Assessment Center (REAC) system.
- NeighborWorks conducted a review of the National Foreclosure Mitigation Counseling Program - Round 6.

We are awaiting final reports on three (3) more monitoring visits that were recently completed.

We also received two additional reports from monitoring reviews conducted in fiscal years 2011 and 2012.

- National Foreclosure Mitigation Counseling Program – Rounds 4 and 5.
- DOE-OIG monitoring of the Weatherization Assistance Program – Travis County.

The details of all of these reports will be discussed under agenda item #5.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
INTERNAL AUDIT DIVISION – STATUS OF FY 2013 EXTERNAL AUDITS  
July 25, 2013**

External Audits/Activities	Scope/Description	Stage	Comments
SAO	Annual opinion audits: <ul style="list-style-type: none"> <li>• Basic Financial Statements for the FYE August 31, 2012.</li> <li>• Revenue Bond Program Audit for the FYE August 31, 2012.</li> <li>• FY 2012 Unencumbered Fund Balances.</li> </ul>	Completed	Final reports were released in December 2012.
KPMG	KPMG audited the expenditure of federal awards as part of the State's Comprehensive Annual Financial Report for fiscal year 2012.	Completed	Final report was released in February 2013.
DPS	A review of the Section 8 Program's use of the criminal history record information to perform criminal records checks.	Completed	Final report was released in January 2013.
DOE	DOE conducted an onsite monitoring of the Weatherization Assistance Program.	Completed	Final report was released in February 2013.
TWC	The Texas Workforce Commission's Civil Rights Division conducted a review of the Department's policies and procedures for compliance with Chapter 21 of the Texas Labor Code.	Reporting	The on-site review was completed the week of July 16, 2013.
HUD	HUD conducted an annual review of the Section 8 Program and calculates an overall score based on the various measures they evaluate.	Completed	Final report was released in May 2013.
HUD	HUD conducted an on-site monitoring of the Neighborhood Stabilization Program.	Reporting	A draft report was received on July 12, 2013. Management responses are due August 11, 2013.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
INTERNAL AUDIT DIVISION – STATUS OF FY 2013 EXTERNAL AUDITS  
July 25, 2013**

External Audits/Activities	Scope/Description	Stage	Comments
SAO	The State Auditor’s Office completed agreed-upon procedures (called a SAS 119) to verify Section 8 data prior to entering the data into HUD’s REAC system.	Completed	Final report was released in June 2013.
NeighborWorks America	NeighborWorks America conducted a remote review of 15 client files for the National Foreclosure Mitigation Counseling Program’s Round 6 Funding.	Completed	Final report was released in July 2013.
DOE	DOE conducted an onsite monitoring of the Weatherization Assistance Program.	Reporting	The on-site work was completed July 8-11, 2013.

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JULY 25, 2013**

Presentation and Discussion of Recent External Audit Reports.

**REPORT ITEM**

There have been eight (8) external audit or monitoring reports received since the last audit committee meeting. Six of these are from this fiscal year and two (2) are leftover from fiscal years 2011 and 2012. The following reports will be discussed:

- a) Statewide Single Audit of Federal Funds
- b) Section 8 Program's Use of Criminal History Records Information
- c) DOE Monitoring of the Weatherization Assistance Program
- d) National Foreclosure Mitigation Counseling Program – Rounds 4 and 5 (from FY 2012)
- e) DOE-OIG Monitoring of the Weatherization Assistance Program - Travis County (from FY 2011)
- f) HUD Section Eight Management Assessment Program (SEMAP) Review
- g) SAO Report on Statement on Auditing Standards (SAS) 119 Review of the Department of Housing and Urban Development's (HUD's) Real Estate Assessment Center (REAC) data
- h) National Foreclosure Mitigation Counseling Program – Round 6

**BACKGROUND**

- a) Statewide Single Audit – There were no findings for the Department.
- b) Section 8 Program's Use of Criminal History Records Information – There were no findings.
- c) DOE On-site Monitoring of the Weatherization Assistance Program – There were no findings or concerns.
- d) National Foreclosure Mitigation Counseling Program- Rounds 4 and 5 - Mayer, Hoffman and McCann, P.C. under contract with NeighborWorks, conducted a quality control and compliance review of two of the Department's subrecipients under rounds 4 and 5 of the National Foreclosure Mitigation Counseling Program. These reviews were performed last year and one (North Texas Housing Coalition) was discussed at the September 2012 audit committee meeting. The second review (Austin Habitat for Humanity) was recently closed out. This review found that due to a conflict of interest at the subrecipient level, there were 20 clients that were ineligible. The associated funds of \$8,191.50 were deobligated and \$2,825 in costs for removal of the ineligible records were repaid to NeighborWorks. Austin Habitat for Humanity

reimbursed the Department for both of these amounts. Consequently, the findings for this review have all been cured.

- e) DOE-OIG Monitoring of the Weatherization Assistance Program – Lani Eko & Company, CPAs, PLLC, under contract with DOE-OIG, reviewed the ARRA Weatherization Assistance Program at the Travis County Health and Human Services and Veteran’s Services Program (Travis County) for April 2009 through June 2011. The fieldwork for this audit was completed in August 2011. The final report was received by the Department in April 2013.

This audit identified two findings:

- Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed. As a result of this finding, a disclosure form was developed and implemented effective February 2013.
- Signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports. The missing documents were stored elsewhere and were later provided to the auditors.

- f) HUD Section Eight Management Assessment Program (SEMAP) Review - HUD conducts an annual review of the Section 8 Program and calculates an overall score based on the various measures they evaluate. This year, the Department scored a 100 and was designated as a high performer.

- g) SAO’s SAS 119 Review of HUD REAC Data – The SAO compared and reconciled data from one of the Department’s financial data schedules to the underlying accounting records used to prepare the Department’s financial statements and to the financial statements themselves. They stated that the financial data schedule was fairly stated in all material respects in relation to the financial statements as a whole. This work is performed as part of the Department’s required submission of data to HUD for the Section 8 Program.

- h) National Foreclosure Mitigation Counseling Program - Round 6 – There were no findings and no further action was required from the Department.

5a



John Keel, CPA  
State Auditor

State of Texas Financial Portion of the  
**Statewide Single Audit Report**  
**for the Year Ended**  
**August 31, 2012**

February 2013  
Report No. 13-555



State of Texas Financial Portion of the  
**Statewide Single Audit Report for the  
Year Ended August 31, 2012**

SAO Report No. 13-555  
February 2013

## Overall Conclusion

In our audit opinion dated February 21, 2013, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2012. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2012, which it has posted on its Web site at <http://www.window.state.tx.us/finances/pubs/cafr/>.

The financial statements provide a comprehensive view of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking.

The financial statements convey the use of approximately \$120.5 billion during the fiscal year, a decrease of \$4.1 billion or 3.3 percent since the prior fiscal year.<sup>1</sup> The State's assets on August 31, 2012, totaled \$231.4 billion, an increase of \$19.5 billion or 9.2 percent since the prior fiscal year. The State's cash and cash equivalents increased by \$10.1 billion since the prior fiscal year. The State sold approximately \$9.8 billion in State of Texas Tax and Revenue Anticipation Notes on August 21, 2012; that amount was approximately the same amount the State sold in the prior fiscal year.

### Basic Financial Statements

The State's basic financial statements include both government-wide and fund financial statements:

- Government-wide financial statements display information about the State as a whole, except for its fiduciary activities.
- Fund financial statements for the State's governmental and proprietary funds provide information on the major funds individually and nonmajor funds in the aggregate. Fiduciary statements include financial information for fiduciary funds.

<sup>1</sup> The \$120.5 billion in annual expenditures exceeded the \$96.1 billion appropriated for fiscal year 2012 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily on a cash basis.

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses in information technology access controls that the Texas Education Agency should correct to improve the reliability of its financial information. Those weaknesses are discussed in Chapter 2-A of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2012. The Office of the Comptroller of Public Accounts prepares the SEFA by using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP (KPMG) audited the processes for preparing SEFA information at 17 agencies and 13 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at 3 agencies and 9 higher education institutions. Auditors identified errors related to the SEFA information at 3 agencies and 7 higher education institutions. Those errors are discussed in Chapter 2-B of this report.

To avoid duplication of effort, the State Auditor's Office relies on KPMG's testing of the internal controls over certain systems and processes. While testing the State's compliance with federal requirements, KPMG identified a material weakness in the managed care program at the Health and Human Services Commission that was caused by inadequate segregation of duties and the use of a manual calculation process for payments to managed care organizations. The managed care program is material to the State's financial statements, and total payments to managed care providers for fiscal year 2012 totaled approximately \$9 billion. The material weakness KPMG identified is related to both financial processes and federal compliance. As of April 2012, the managed care program includes approximately 85 percent of the individuals covered by Medicaid in Texas. For more information see finding 13-14 in *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by companies that review the State's fiscal integrity to rate state-issued bonds, the Legislature, and by federal agencies that award grants.

## ***Key Points***

**The financial systems and controls at the agencies audited enable the State to prepare materially accurate basic financial statements.**

The financial systems and controls at the four agencies audited and included in this report (the Health and Human Services Commission, the Office of the Comptroller of Public Accounts, the Texas Education Agency, and the Texas Workforce Commission) enable the State to prepare materially accurate basic financial statements.

However, auditors identified weaknesses in information technology access controls at the Texas Education Agency.

**Certain agencies and higher education institutions should strengthen their processes for preparing and reporting information on their SEFAs.**

Auditors identified errors significant to the accuracy of the SEFAs prepared by 10 (33 percent) of the 30 agencies and higher education institutions at which SEFA information was audited. Those errors were caused by a lack of adequate preparation and review of SEFA information at those agencies and higher education institutions. In addition, some higher education institutions incorrectly prepared their SEFAs by award year instead of by fiscal year for federal funds from the Student Financial Assistance cluster of federal programs.

Auditors communicated less significant financial reporting or SEFA issues to management of certain agencies and higher education institutions in writing.

## ***Summary of Management's Responses***

The agencies and higher education institutions generally agreed with the recommendations in this report.

## ***Summary of Information Technology Review***

Auditors reviewed the significant accounting and information systems at the agencies audited. Specifically, auditors identified systems that compiled and contained data used to prepare the Comprehensive Annual Financial Report and then reviewed basic data protection controls such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control weaknesses at the Texas Education Agency. Correcting those weaknesses will help to ensure the reliability of that agency's financial information.

## **Summary of Objective, Scope, and Methodology**

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2012.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor.

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012* by KPMG.

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating results against established criteria. Auditors assessed the reliability of data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

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# **Independent Auditor's Report**

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2012*

## Summary of Auditor's Results

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### Financial Statements

- |  |             |
|--|-------------|
| 1. Type of auditor's report issued:  | Unqualified |
| 2. Internal control over financial reporting:                                    |             |
| a. Material weakness identified?   | No          |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes         |
| c. Noncompliance material to financial statements noted?                         | No          |

### Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2012 was included in Chapter 2-B of this report. All other fiscal year 2012 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG LLP).



**Report on Internal Control over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Comptroller of Public Accounts  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Joe Straus III, Speaker of the House of Representatives  
and  
Members of the Texas Legislature  
State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2012, and have issued our report thereon dated February 21, 2012. Our report includes a reference to other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the entities listed below in the section titled "Work Performed by Other Auditors." This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the Texas Local Government Investment Pool (TexPool) were not audited in accordance with *Government Auditing Standards*.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

**Internal Control Over Financial Reporting**

Management of state agencies and higher education institutions is responsible for establishing and maintaining effective internal control over the State's financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Texas Education Agency	13-555-01
Multiple agencies and higher education institutions	13-555-02

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the entities audited in writing.

## Work Performed by Other Auditors

The State Auditor's Office did not audit the entities and funds listed in the table below. These entities were audited by other auditors.

Entities Audited by Other Auditors	Scope of Work Performed
Texas Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2012.
The University of Texas System	An audit of the consolidated balance sheet of the University of Texas System, as of and for the year ended August 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended was conducted.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2012, and August 31, 2011.

This report, insofar as it relates to the entities listed in the table above, is based solely on the reports of the other auditors.

## Other Work Performed by the State Auditor's Office

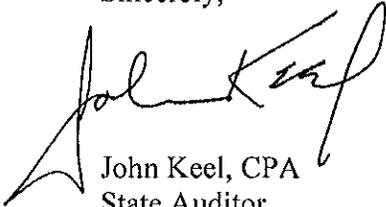
We issued opinions on the following financial statements, which are consolidated into the basic financial statements of the State of Texas:

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-009, November 2012).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-012, December 2012).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-014, December 2012).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-015, December 2012).
- *A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor's Office Report No. 13-016, January 2013).
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-017, January 2013).

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor, the Legislature, audit committees, boards and commissions of the State, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "John Keel", written over a printed name and title.

John Keel, CPA  
State Auditor

February 21, 2013



# TEXAS DEPARTMENT OF PUBLIC SAFETY

5805 N. LAMAR BLVD. - BOX 4143 - AUSTIN, TEXAS 78765-4143  
CRIME RECORDS SERVICE  
512 / 424-7364



STEVEN C. McCRAW  
DIRECTOR  
DAVID G. BAKER  
CHERYL MacBRIDE  
DEPUTY DIRECTORS

COMMISSION  
A CYNTHIA LEON, CHAIR  
CARIN MARCY BARTH  
ADA BROWN  
ALLAN B. POLUNSKY  
RANDY WATSON

January 15, 2013

Ms. Willie Faye Hurd, Section 8 Manager  
Texas Department of Housing & Community Affairs  
P O Box 13941  
Austin, Texas 78711-3941

Subject: Texas Dept. of Public Safety On-Site Audit

Dear Ms. Hurd:

Enclosed is the report on your recent non-criminal justice audit, which was performed on January 15, 2013 by Janet Raeke, Field Representative from the Texas Department of Public Safety. The audit consisted of an interview with you, as designated by your service. The interview specifically covered the non-criminal justice audit process as it pertains to state and federal laws.

After the interview, the auditor performed an audit on the access, use, dissemination, storage, security, and destruction of criminal history record information.

**No areas of non-compliance were found.**

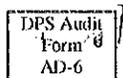
If you have any questions in regard to the results of this audit, please contact Susie Dial, Access and Dissemination Bureau Supervisor, at 512-424-7927.

Sincerely,

Mike Lesko, Deputy Assistant Director  
Law Enforcement Support Division  
Crime Records Service

ML/jmr

JAN 17 2013



# TEXAS DEPARTMENT OF PUBLIC SAFETY

5805 N LAMAR BLVD • BOX 4143 • AUSTIN, TEXAS 78765  
CRIME RECORDS SERVICE  
512/424-7364



STEVEN C. McCRAW  
DIRECTOR  
DAVID G. BAKER  
CHERYL MacBRIDE  
DEPUTY DIRECTORS



COMMISSION  
A. CYNTHIA LEON, CHAIR  
CARIN MARCY BARTH  
ADA BROWN  
ALLAN B. POLUNSKY  
RANDY WATSON

January 15, 2013

## NON-CRIMINAL JUSTICE AUDIT REPORT *Texas Department of Housing and Community Affairs* *Section 8 Housing* *7421490H - 0052E*

### SUMMARY

The Texas Department of Public Safety (DPS) and Federal Bureau of Investigation (FBI) have established audit programs for the purposes of evaluating a non-criminal justice agency's compliance with state and federal statutes, regulations, policies, and procedures for the access, use, dissemination, storage, security, and destruction of criminal history record information.

### TRAINING

During training, the following topics and others not listed here were discussed as baseline security awareness for all authorized personnel with access to criminal history record information: statutes and rules that describe the responsible access and dissemination of criminal history record information; protection of confidential information; threats, vulnerabilities, and risks associated with the handling of criminal history record information; visitor control and physical access to areas containing criminal history record information; electronic storage; destruction; and penalties for non-compliance.

As a reminder, *all* personnel with access to the DPS Secure Site must pass a DPS criminal history check. If you have any questions, please contact us at 512-424-7364.

### AUDIT RESULTS

The DPS Access and Dissemination Bureau's Training and Audit Unit, recently conducted an on-site audit in reference to the security of the criminal history record information your agency receives through secure databases from the DPS, and if applicable, the FBI. This audit report is based on Texas and Federal law regulating the access and dissemination of criminal history record information. [Reference: Texas Government Code 411 and the CJIS Security Policy].

### AREAS AUDITED

#### ACCESS TO CRIMINAL HISTORY RECORD INFORMATION

Policy: Texas Government Code 411.083(b) (2) requires the DPS to grant access to non-criminal justice agencies authorized by state or federal statute, or executive order to receive criminal history record information.

A non-criminal justice entity must provide the DPS with the name, sex, race, date of birth, and working title of each employee/official who will access and utilize information received from DPS databases. The DPS will conduct a name-based criminal history record check on each name submitted, and reserves the right to require a fingerprint-based criminal history record check on any employee/official. Only persons approved by the DPS will be granted access to DPS databases or information on behalf of the non-criminal justice entity. Any person who is not granted access due to the results of the name-based criminal history record check may dispute the findings through the submission of their fingerprints.

*Important: The DPS reserves the right to limit the number of authorized employees/officials with access to DPS databases and information. In addition, DPS will strictly enforce the most restrictive set of rights, privileges, and guidelines governing access to DPS databases and information.*

**Finding: In-Compliance**

**Required Action(s): None**

**USE OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Texas Government Code 411.084(a) Criminal history record information obtained from the department under this subchapter, including any identification information that could reveal the identity of a person about whom criminal history record information is requested and information that directly indicates or implies involvement of a person in the criminal justice system: (1) is for the exclusive use of the authorized recipient of the information; and (2) may be disclosed or used by the recipient only if, and to the extent that, disclosure or use is authorized or directed by: (A) this subchapter; (B) another statute; (C) a rule adopted under a statute; or (D) an order of a court of competent jurisdiction.

(a-1) The term "criminal history record" information under Subsection (a) does not refer to any specific document produced to comply with this subchapter but to the information contained, wholly or partly, in a document's original form or any subsequent form or use.

(b) Notwithstanding Subsection (a) or any other provision in this subchapter, criminal history record information obtained from the Federal Bureau of Investigation may be released or disclosed only to a governmental entity or as authorized by federal law and regulations, federal executive orders, and federal policy.

(c) An agency or individual may not confirm the existence or nonexistence of criminal history record information to any person that is not eligible to receive the information.

**Finding: In-Compliance**

**Required Action(s): None**

**DISSEMINATION OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Texas Government Code 411.083(a) Criminal history record information maintained by the department is confidential information for the use of the department and, except as provided by this subchapter, may not be disseminated by the department. (b) The department shall grant access to criminal history record information to: (2) non-criminal justice agencies authorized by federal statute or executive order or by state statute to receive criminal history record information.

(d) The department is not required to release or disclose criminal history record information to any person that is not in compliance with rules adopted by the department under this subchapter or rules adopted by the Federal Bureau of Investigation that relate to the dissemination or use of criminal history record information.

*Important: Access to DPS and FBI criminal history record information by authorized employees/officials is subject to cancellation if dissemination of information is made outside the receiving department, related agency, or authorized entity. In addition, access to DPS and FBI criminal history record information may not be disseminated to a person not authorized to receive the information. Criminal penalties (Government Code 411.085) are also in place for the improper dissemination of criminal history record information.*

**Finding: In-Compliance**

**Required Action(s): None**

**STORAGE AND SECURITY OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Agencies are required to establish appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security and integrity.

Per the DPS Secure Databases and CJIS Security Policies: the computer site and/or terminal area must have adequate physical security to protect against any unauthorized personnel gaining access to the computer equipment or to any stored data; the location of all criminal history record information received from the DPS and FBI must have adequate physical security to protect against any unauthorized viewing or access to displayed, stored or printed criminal history record information at all times; passwords must be secure to prevent unauthorized access; the auto save password feature should be disabled to prevent unauthorized logon; ensure that computer terminals have session lock features of less than thirty minutes; user access must be terminated when access is no longer authorized; file cabinets must have locks; and if your agency is utilizing the Fingerprint-based Applicant of Texas Clearinghouse (FACT), records must be unsubscribed to if you no longer are entitled to access, per Government Code 411.0845.

**Finding: In-Compliance**

**Required Action(s): None**

**DESTRUCTION OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Destruction of criminal history record information must be performed by authorized users. Agencies with access to criminal history record information must follow their 411 statute regarding the destruction of criminal history record information. If the 411 statute does not provide a destruction timeframe, then the agency should follow the recommended timeframe presented during training or contact the training and audit unit to discuss a reasonable timeframe.

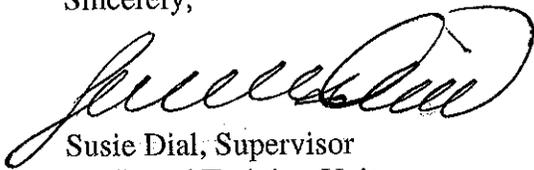
**Finding: In-Compliance**

**Required Action(s): None**

**OTHER RECOMMENDATIONS OR MINOR INFRACTIONS**

N/A

Sincerely,

A handwritten signature in cursive script, appearing to read "Susie Dial".

Susie Dial, Supervisor  
Audit and Training Unit  
Access and Dissemination Bureau  
Crime Records Service



## Department of Energy

Golden Field Office  
1617 Cole Boulevard  
Golden, Colorado 80401-3393

February 22, 2013

Mr. Michael DeYoung  
Executive Director  
Texas Department of Housing and Community Affairs  
P.O. Box 13941  
Austin, Texas 78711-3941

RECEIVED  
FEB 26 2013

COMMUNITY AFFAIRS

**Subject: DOE on-site Monitoring Report of the DOE Weatherization Assistance Program**

Dear Mr. DeYoung,

On February 11<sup>th</sup> to 14<sup>th</sup>, 2013, Paul Jiacoletti Project Officer with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the DOE Weatherization Assistance Program, administered by the Northern Arapaho Tribe. Attached is a report on the results of the visit.

The monitoring assessment included a review of administrative, financial and programmatic aspects of the State of Texas Weatherization Assistance Program, (WAP). Please find enclosed the DOE Monitoring Report and on-site checklist which summarize observations and recommendations made during the monitoring visit. There were no findings or concerns contained in the report.

Please contact me if you have any questions or concerns about this report. I may be reached at [paul.jiacoletti@go.doe.gov](mailto:paul.jiacoletti@go.doe.gov) or at (720) 356-1632.

I look forward to continued interaction with you and your staff in the effective implementation and operation of the Weatherization Assistance Program.

Thank you for the cooperation and assistance your staff provided during the visit.

Sincerely,

Paul Jiacoletti  
Project Officer

cc: Kerry Hebert, GSC  
Andrea Lucero, GSC  
Paul Jiacoletti GSC





**DOE ONSITE MONITORING REPORT WEATHERIZATION ASSISTANCE  
PROGRAM STATE OF TEXAS**

**Weatherization Assistance Program On-Site Monitoring Visit Report**

**GRANTEE:** STATE OF TEXAS  
P.O. BOX 13941  
AUSTIN TX, 787113941

**DATES:** 02/11/2013 - 02/14/2013

**GRANT:** EE0000190

**SUMMARY:**

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On 02/11/2013 - 02/14/2013, U.S. Department of Energy (DOE) Project Officer, Paul Jiacoletti, conducted an onsite monitoring assessment of STATE OF TEXAS 81.042 - Weatherization Assistance for Low-Income Persons (WAP).

As part of DOE's monitoring review the following Subgrantees were visited:

- Combined Community Action Agency

Monitoring Assessments were identified during this visit and are included in the report. The Grantee will be required to provide Corrective Action Plans for all findings and concerns identified in the checklists. DOE also requests that the Grantee respond to recommendations. The Grantee's response should be received within 30 calendar days of the date of this report. **THERE ARE NO FINDINGS OR CONCERNS AS A RESULT OF THIS VISIT.**

**PURPOSE OF REVIEW:**

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The onsite monitoring assessment was conducted in order to fulfill monitoring and oversight requirements of the DOE Weatherization Program.

The purpose of this monitoring assessment is to:

- Assess the Grantee's adherence to their State Plan.
- Identify program strengths and areas for improvement.
- Evaluate the Grantee's monitoring and oversight of Subgrantees.
- Verify compliance with federal and state regulations, policies and procedures.
- Identify accomplishments and success stories.
- Determine what DOE can do to assist the Grantee to be more successful in its implementation of the program.

## PROCESS:

---

### Participants:

Paul Jacoletti	Department of Energy	Project Officer
Tim Irvine	Texas Dept. of Housing and Community Affairs	Executive Director
Stephen Jung	Texas Dept. of Housing and Community Affairs	Project Manager-Training
Sharon Gamble	Texas Dept. of Housing and Community Affairs	Project Manager-Planning
J.R. Mendoza	Texas Dept. of Housing and Community Affairs	Monitoring Manager
Derrick Miller	Texas Dept. of Housing and Community Affairs	Staff Auditor
Michael DeYoung	Texas Dept. of Housing and Community Affairs	Program Manager
Cathy Collingsworth	Texas Dept. of Housing and Community Affairs	Program Manager-Finance
Sandy Donoho	State of Texas	Internal Audit Director
David Cervantes	State of Texas	Director, Financial Admin
Esther Ku	State of Texas	Manager, Accounting

The monitoring visit was designed to monitor the assistance award provided under the Department of Energy (DOE) Weatherization Assistance Program (WAP) and administered by the Texas Department of Housing and Community Affairs in Austin, Texas. The annual WAP award (EE-0000190) was reviewed during this visit.

The first day of the visit, February 11<sup>th</sup>, was spent traveling to Austin, Texas and due to Grantee staff scheduling commitments with legislative hearings; I was unable to visit with the Grantee on this date.

The second day of the visit, February 12<sup>th</sup> was spent reviewing questions on the monitoring checklist. The responses to monitoring protocols were provided by J.R. Mendoza who discussed the scheduled monitoring trips, protocols and the new monitoring tool the Grantee is using as a part of the overall monitoring process for the Compliance Division. Stephen Jung provided training schedules and spreadsheet, documentation for completion of requested training classes from sub-grantee agency personnel and grantee personnel. I also had an opportunity to review the NEAT/MHEA audit libraries with Ms. Laura Saintey of the Training Department for the Combined Community Action Agency. I met with Ms. Esther Ku to discuss the processes and protocols for the Grantee. This discussion included answers to document the methods used financial processes and procedures to ensure that sufficient checks and-balances-exist-for-expenditures-and-that-systems-are-in-place-to-prevent-fraud,-waste-and-abuse-of-the-federal-investment-for-this-program. I requested and was provided copies of invoices which documented the process for payment of invoiced costs associated with the Weatherization Program. These copies appear to demonstrate that controls are in place which provide sufficient oversight to ensure that costs are allowable, allocable and reasonable. I also spent time in discussions with Michael DeYoung during this period of time to verify that the Grantee has in place the required rental agreements, Historic Review protocols, and still maintains a database which identifies units which have been weatherized during the preceding program years. I also requested and was provided a link to the TDHCA (Texas Department of Housing and Community Affairs) web-site where the information is stored and accessible for use by sub-grantee agency personnel. Mr. DeYoung and I also discussed the protocols for eligibility determination in the program. I also took the opportunity to visit briefly with Brenda Hull to determine how TDHCA will administer Davis-Bacon payroll information and enforcement reporting when Texas begins the final administration of the remaining ARRA funding. Davis-Bacon is not a requirement for this award; however I had an interest in determining how the Grantee will again administer this award requirement. Prior to leaving the grantee office for the day, Mr. DeYoung and I discussed the arrangements for the site visit to Combined Community Action Agency in Giddings, Texas and the travel schedule to the outskirts of Houston to review completed and in-progress units. Mr. DeYoung and I also discussed the ARRA

award balance (#EE-0000094) which has been awarded through the National Energy Technology Laboratory and will be administered through September 30<sup>th</sup> of this year. Mr. DeYoung expressed confidence that the Grantee should achieve full expenditure of the remaining ARRA funds while achieving the production of 187 units.

The third day, February 13<sup>th</sup>, was spent traveling in the morning to Houston to review completed units which had received Weatherization Services by the Giddings, TX agency. After reviewing units in the morning, we drove back to Giddings to complete more file reviews and discuss the sub-grantee checklist questions with the Executive Director, Ms. Kelly Franke. When this was completed, I thanked Ms. Franke for her time and her staff cooperation and we returned to Austin.

The fourth day, I returned to the office to complete the final discussions for the financial/administrative section of the Grantee checklist with Ms. Cathy Collingsworth. We discussed the systems in place to track capped cost categories, the tracking tools in use for receipt of funds from more than one funding source, contract requirements, reviewed the Grantee process for reviewing invoices for allowable costs and reporting requirements for both invoices and programmatic reporting. Ms. Collingsworth and I also discussed the timeline for submittal of State WAP plans and I conveyed to her that the process would change and encouraged her to review the guidance found in Weatherization Program Notice 13-1 and the application instructions. We also discussed briefly the possibility of running concurrent grants if full expenditures were not achieved with this award during the program year. When requested, Ms. Collingsworth provided an up-to-date expenditure report which indicated that the Grantee has spent considerable additional funding since their last quarterly reports. If expenditure rates continue, the Grantee should be able to fully expend this award while meeting their production requirements.

Upon completing my discussions with Ms. Collingsworth and incorporating her information into my exit briefing, an exit briefing was held with Grantee staff to outline the results of the monitoring visit. **THIS VISIT DID NOT IDENTIFY ANY FINDINGS OR CONCERNS.** It appears that the Grantee is on track to complete full expenditure of the award and achieve production for the required number of units.

## **PROGRAMMATIC & MANAGEMENT: REVIEW**

### **REVIEW OF PREVIOUS MONITORING ASSESSMENTS AND VERIFICATION OF IMPLEMENTATION OF CORRECTIVE ACTIONS**

*No findings, concerns, or recommendations were previously identified. It should be noted that previous findings and concerns have been resolved.*

## **PROGRAMMATIC & MANAGEMENT CHECKLIST: ASSESSMENT REVIEW**

### **COMMENDATIONS AND BEST PRACTICES:**

*The grantee is commended for incorporating in their training the requirements outlined in Weatherization Program Notice 12-9. The review of audits done for the sub-grantee visited during this trip indicate that this process is being used to associate Incidental Repair costs with Energy Conservation Measures and that those measures which are identified for installation continue to rank in the audit with an SIR of one or greater.*

### **GRANTEE REVIEW:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **WAGE DETERMINATIONS AND PAYROLL:**

*Section was not reviewed during this visit.*

### **FINANCIAL/ADMINISTRATIVE :**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit. A more thorough review of the Grantee's financial management procedures falls under the purview of the Golden Field Office, the contracting office for DOE's WAP. The Contracting Office is responsible for monitoring the DOE Weatherization Grantee for financial compliance against Federal regulations and Grantee's policies and procedures. This report will be shared with the appropriate GFO personnel and a follow-up financial review may be conducted by GFO procurement personnel.*

### **EQUIPMENT/INVENTORY/MATERIALS:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **ELIGIBILITY:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **RENTAL:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **POLICY ADVISORY COUNCIL:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FEEDBACK AND REPORTING:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**ENERGY AUDITS:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FIELD WORK:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**HEALTH & SAFETY:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**GRANTEE MONITORING:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**TRAINING & TECHNICAL ASSISTANCE:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**SERC REGULATIONS:**

*Section was not reviewed during this visit. There is not a SERC component to this award.*

**SUBGRANTEE(S) CHECKLIST: ASSESSMENT REVIEW**

- Combined Community Action Agency

**PROGRAM OVERVIEW:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FINANCIAL/ADMINISTRATION:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**INVENTORY:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**ENERGY AUDITS:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**QUALIFICATIONS & TRAINING:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**WEATHERIZATION OF UNITS:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**HEALTH & SAFETY:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**QUALITY MANAGEMENT ASSURANCE:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**SERC OVERVIEW:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit. - There is not a SERC component to this award.*

**TECHNICAL ASSISTANCE:**

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*Technical Assistance was provided with some components of the ASHRAE 2010 protocols. The Grantee has been provided with information from the Project Officer which is designed to allow the sub-grantee agencies to better document and perform this very important function of the program.*

**CLOSING:**

---

I would like to extend my thanks and appreciation to Grantee staff and the sub-grantee agency staff who were extremely cordial and provided all requested information and documentation promptly. I am aware that Grantee staff is presently involved in legislative review of their programs and wish to once again express my gratitude to them for modifying their schedules to accommodate my requests for information and review during this visit.

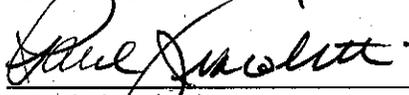
**CERTIFICATION:**

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I have conducted this monitoring visit in accordance with DOE standard procedures using the appropriate monitoring checklists for the purpose of forming an opinion on the general administration of your Weatherization grants.

This is not an audit, and therefore all areas examined were only examined for purposes of obtaining an assessment of compliance with program requirements.

Report Prepared by:



Paul Jiacoletti  
Project Officer

02/21/2013

Date

January 24, 2013

Timothy Irvine  
 Texas Department of Housing and Community Affairs  
 221 East 11<sup>th</sup> Street  
 Austin, TX 78701

Dear Timothy Irvine,

NeighborWorks® America would like to thank you for your response to its Quality Control and Compliance Review for Rounds 4 and 5 conducted by Mayer Hoffman McCann P.C. (MHM) on behalf of the National Foreclosure Mitigation Counseling (NFMC) Program. As a **direct grantee**, your organization is responsible for compliance with the terms and conditions of the NFMC program and must ensure its sub-grantees, branches and/or affiliates, if applicable, are also in compliance. **This will be your final NFMC letter for the Quality Control and Compliance Review for Rounds 4 and 5.** Final Rounds 4 and 5 disbursement(s) will be released shortly. NFMC staff has reviewed your response and determined the following:

**Your Finding(s) have been cured based on the documented evidence provided in your response; however, one or more of your agency’s sub-grantees, branches, and/or affiliates has Finding(s) requiring a resolution. The Findings requiring de-obligation are from Austin Habitat for Humanity’s ineligible Round 5 clients that were found to be a conflict of interest. The nine files listed below, are the client files from the Round 4 and 5 Compliance Review. The de-obligation amount for the rest of the ineligible client files is detailed on the next page.**

**As a direct grantee, you will be responsible for reimbursing the NFMC program for the following client files from your sub-grantee(s), branches, and/or affiliates:**

Level of counseling	Value of Counseling Level	# of R. 4 files with uncured Findings	# of R. 5 files with uncured Findings	Subtotal of client file Findings	Program Related Support (20%)	Operational Oversight, if applicable (7%)	Total
Level 1	\$150		4	\$600	\$120	\$42	\$762
Level 2	\$300		5	\$1,500	\$300	\$105	\$1,905
Level 4a	\$300			\$0	\$0	\$0	\$0
Level 4a	\$150			\$0	\$0	\$0	\$0
							<b>\$2,667</b>

The total due will be **de-obligated** from your organization’s Round 4 and/or 5 Grant Award. If the amount due exceeds the available balance of the grant award NFMC will **recapture** funding and will require your agency to remit the recaptured amount.

In addition to the above amount, Texas Department of Housing and Community Affairs will have a further de-obligation of \$5,524.50 for twenty (20) additional Round 5 client files that were ineligible because Austin Habitat for Humanity was the original owner of the clients' loans. This violates NFMC's conflict of interest policy that states "staff and volunteers who provide foreclosure intervention counseling under NFMC shall have no conflict(s) of interest due to relationships with servicers, real estate agencies, mortgage lenders, and/or other entities (including itself) that may stand to benefit from particular counseling outcomes" (Round 5 Funding Announcement, pg. 21).

Level of counseling	Value of Counseling Level	# of R. 5 ineligible files uploaded	Subtotal of client file Findings	Program Related Support (20%)	Operational Oversight, if applicable (7%)	Total
Level 1	\$150	11	\$1,650	\$330	\$115.50	\$2,095.50
Level 2	\$300	9	\$2,700	\$540	\$189	\$3,429
						\$5,524.50
						Plus \$2,667 compliance findings
						<b>\$8,191.50</b>

Please see the attached letters for details regarding the results of the NFMC Rounds 4 and 5 compliance testing for your sub-grantees, branches and/or affiliates. The following information details the results of the NFMC Rounds 4 and 5 compliance testing for your agency:

**Programmatic Findings**

**Finding 1:** **CURED:** The documented evidence submitted met the requirements as stated in the NFMC Grant Agreement and/or Funding Announcement. **Original Finding:**

**Insurance Policy:** We noted during our review that your agency's insurance policy did not cover the period of the Round 4 and Round 5 Grant Agreement. "Grantee shall obtain fidelity bond coverage or honesty insurance in an amount that is at least equal to the lesser of (a) its grant funds awarded or (b) \$100,000. For all such fidelity bond coverage or honesty insurance, NeighborWorks America should be named as an additional insured. State Housing Finance Agencies only may request a waiver from this provision, provided they issue a statement in writing that they have comparable insurance covering acts of their employees." *(This requirement can be found in the*

Thank you for your participation in the NFMC Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMC to provide a WebEx or other instructional material regarding NFMC Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Round 4 & 5 Standard Compliance Reviews".

Thank you for your time and consideration.

Sincerely,

*Tonya Sims*

Tonya Sims

Senior Program Manager, National Foreclosure Mitigation Counseling Program

Attachment: Client File Findings worksheet

## NeighborWorks America

1325 G Street, N.W. ▶ Suite 800 ▶ Washington, DC 20005 ▶ 202.220.2300 ▶ [nw.org](http://nw.org)

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March 29, 2013

Timothy Irvine  
Texas Department of Housing and Community Affairs  
221 East 11<sup>th</sup> Street  
Austin, TX 78701

Dear Timothy Irvine,

NeighborWorks® America would like to thank you for your response to its Quality Control and Compliance Review for Rounds 4 and 5 conducted by Mayer Hoffman McCann P.C. (MHM) on behalf of the National Foreclosure Mitigation Counseling (NFMC) Program as well as for your cooperation with all of the follow-up communications with NFMC staff.

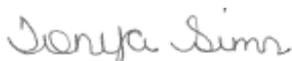
In addition to the \$8,191.50 that was already de-obligated on January 24, 2013 (see letter dated January 24, 2013) Texas Department of Housing and Community Affairs must reimburse NFMC for the removal of the ineligible records as listed in the final letter from the Standard Compliance Review for Round 4 and 5 (a copy is attached for your reference). **NFMC funds can't be used to pay for ineligible records.**

Please make your payment of **\$2,825** payable to NeighborWorks America and send to the following no later than **April 5, 2013**:

NeighborWorks America  
Attn: Tonya Sims, Director Quality Control and Compliance  
NFMC – Quality Control and Compliance  
1325 G. Street  
Washington, DC 20005

Thank you for your participation in the NFMC Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMC to provide a WebEx or other instructional material regarding NFMC Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Quality Control & Compliance".

Sincerely,



Tonya Sims, Director  
NFMC Quality Control and Compliance



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

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J. Mark McWatters

April 11, 2013

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

Kelly Weiss  
Executive Director  
Austin Habitat for Humanity  
310 Comal Street, Suite 100  
Austin, Texas 78702

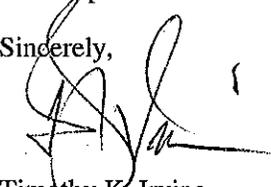
RE: NFMCC Round 5 Audit Finding Closed

Dear Ms. Weiss:

I am pleased to inform you that the audit finding for a conflict of interest during an NFMCC Round 4 & 5 Compliance Review of Austin Habitat for Humanity (see letter dated January 14, 2013) has been closed. The Texas Department of Housing and Community Affairs (TDHCA) has received \$8,191.50 and \$2,875.00 from Austin Habitat for Humanity for ineligible costs and processing for the removal of the ineligible records, respectively. TDHCA has received confirmation from NeighborWorks America that it has accepted the funds and is satisfied with the corrections made as a result of the audit finding.

If you have any questions or concerns regarding this issue, please contact me or Eric Pike at (512) 475-3356.

Sincerely,

  
Timothy K. Irvine  
Executive Director

cc: David Long, President, Texas State Affordable Housing Corporation  
Eric Pike, Director, Texas Homeownership Division, Texas Department of Housing and Community Affairs  
Elizabeth Yevich, Director, Housing Resource Center, Texas Department of Housing and Community Affairs



**Department of Energy**  
Washington, DC 20585

April 18, 2013

Michael DeYoung, Director  
Community Affairs Division  
Texas Department of Housing  
and Community Affairs  
221 East 11<sup>th</sup> Street  
PO Box 13941  
Austin, TX 78711-3941

RE: Examination Report on "Travis County Health & Human Services and Veterans Services – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

Dear Mr. DeYoung:

Enclosed is a copy of the subject examination report. The Office of Inspector General contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on Travis County Health & Human Services and Veterans Services' (Travis County) compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Assistance Program (Weatherization Program). Travis County is a sub-recipient of the Department of Energy's American Recovery and Reinvestment Act of 2009 Weatherization Program funding for the State of Texas. Lani Eko expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period of April 1, 2009 through June 30, 2011.

However, the examination found that Travis County had not:

- Ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.
- Properly supported 33 of 45 client transactions reviewed. Lani Eko found that signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

The report makes recommendations to Travis County to improve the administration of its Weatherization Program. Travis County provided responses that expressed agreement with the

recommendation regarding eligibility and provided planned actions to address the issues identified. Travis County disagreed that the cost documentation did not denote proper approvals, but acknowledged that while the cost documents were not in the file at the time of the examination, the original documents were maintained in the Finance Department available for review. Lani Eko acknowledged receipt of cost documents signed by the appropriate approving officials subsequent to the examination and credited Travis County for this action.

We thank you and members of your staff for your cooperation during the examination.

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

Enclosure

cc: Sharon Gamble, Project Manager, Planning, Community Affairs Division



U.S. Department of Energy  
Office of Inspector General  
Office of Audits and Inspections

# Examination Report

Travis County Health & Human  
Services and Veterans Services –  
Weatherization Assistance Program  
Funds Provided by the American  
Recovery and Reinvestment Act of  
2009



OAS-RA-13-18

April 2013



**Department of Energy**  
Washington, DC 20585

April 18, 2013

**MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND  
RENEWABLE ENERGY**

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

**FROM:** Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

**SUBJECT:** INFORMATION: Examination Report on "Travis County Health & Human Services and Veterans Services – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

**BACKGROUND**

The attached report presents the results of an examination of the Travis County Health & Human Services and Veterans Services (Travis County) Weatherization Assistance Program (Weatherization Program) provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on Travis County's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. Travis County is a sub-recipient of the Department of Energy's (Department) Recovery Act Weatherization Program funding for the State of Texas.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Program received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Texas received \$327 million in Weatherization Program Recovery Act grant funding, of which \$8.9 million was allocated to Travis County to weatherize approximately 1,060 homes. The State of Texas' Department of Housing and Community Affairs (State) was responsible for administering Weatherization Program grants, including funds provided to Travis County.

**OBSERVATIONS AND CONCLUSIONS**

Lani Eko expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period of April 1, 2009 through June 30, 2011.

However, the examination found that Travis County had not:

- Ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.
- Properly supported 33 of 45 client transactions reviewed. Lani Eko found that signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

The report makes recommendations to Travis County to improve the administration of its Weatherization Program. Travis County provided responses that expressed agreement with the recommendation regarding eligibility and provided planned actions to address the issues identified. Travis County disagreed that the cost documentation did not denote proper approvals, but acknowledged that while the cost documents were not in the file at the time of the audit, the original documents were maintained in the Finance Department available for review. Lani Eko acknowledged receipt of cost documents signed by the appropriate approving officials subsequent to the examination and credited Travis County for this action.

#### RECOMMENDATION

We recommend the Assistant Secretary for Energy Efficiency and Renewable Energy ensure appropriate action is taken by the State of Texas to improve administration of Recovery Act Weatherization Program funds at Travis County Health & Human Services and Veterans Services.

#### MANAGEMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with the recommendation outlined in the report. The Department's Weatherization Assistance Program Project Officer participates in weekly calls with the State of Texas, and receives weekly production reports for all subgrantees. The Department noted the State had enhanced its monitoring review to ensure that subgrantee files contain appropriate documentation. Based on an earlier review performed by the Department, the Project Officer recommended to the State that Travis County develop a corrective action plan and that all reimbursement costs are reviewed. The Project Officer will verify the State's monitoring approach and that all corrective actions were implemented during an on-site visit scheduled for August 2013. The Department's comments are included in their entirety in Attachment 2.

The State concurred with the Travis County recommendations and will continue to work with Travis County to mitigate the risk that Federal funds are expended on ineligible units. Further, the State will review documentation to ensure it is properly approved. The State noted, however, that due to separation of duties, approved documentation is retained in the Finance Office, which

is separate from the Housing Office at Travis County. The State found it troubling that the auditor did not include a visit to the Finance Office to review the documentation. The State's comments are included in their entirety in Attachment 3.

The comments provided by the Department and the State were responsive to the recommendations. Regarding the State's concern about lack of auditor review of available documentation, we noted that although Travis County indicated in its written comments to the draft examination report that the documentation had been available for Lani Eko's review. During the examination, Travis County did not inform Lani Eko that the documentation existed and was maintained separately in the Finance Office.

#### EXAMINATION-LEVEL ATTESTATION

Lani Eko conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of Travis County's policies and procedures, and reviewing applicable Weatherization Program documentation. The procedures also included an analysis of inspection results, records of corrective actions and re-inspections of completed homes/units to ensure any failures were properly corrected. Finally, an analysis of associated cost data was performed to test the appropriateness of payments.

The Office of Inspector General monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances in which Lani Eko did not comply, in all material respects with the attestation requirements. Lani Eko is responsible for the attached report dated August 25, 2011, and the conclusions expressed in the report.

Attachments

cc: Deputy Secretary  
Acting Under Secretary of Energy  
Chief of Staff

**EXAMINATION REPORT OF  
TRAVIS COUNTY HEALTH &  
HUMAN SERVICES AND  
VETERANS SERVICES -  
WEATHERIZATION  
ASSISTANCE PROGRAM  
FUNDS PROVIDED BY THE  
AMERICAN RECOVERY AND  
REINVESTMENT ACT OF 2009**

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Lani Eko & Company, CPAs, PLLC

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**LANI EKO & COMPANY, CPAs, PLLC**  
110 S. Union Street, Suite 301  
Alexandria, VA 22314

Phone: (703) 647-7444  
Fax: (866) 665-7269  
www.laniekocpas.com

## Independent Accountant's Report

To the Inspector General, U.S. Department of Energy:

We have examined the American Recovery and Reinvestment Act of 2009 (Recovery Act), Weatherization Assistance Program (Weatherization Program) funds awarded by the State of Texas to the Travis County Health & Human Services and Veterans Services (Travis County) for the period April 1, 2009 through June 30, 2011. Travis County is responsible for operating the Weatherization Program in compliance with applicable Federal and state laws, regulations and program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Weatherization Program Federal and state laws, regulations, and program guidelines, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. In addition, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, except for the weaknesses described in Section IV of this report, Travis County complied, in all material respects, with the aforementioned requirements and guidelines relative to Weatherization Program funds awarded to Travis County for the period April 1, 2009 through June 30, 2011.

*Lani Eko & Company, CPAs, PLLC*

August 25, 2011  
Alexandria, Virginia

**SECTION I. Description of Travis County Health & Human Services and Veterans Services Weatherization Assistance Program**

The U.S. Department of Energy awarded \$326,975,732 to the State of Texas to allocate among its network of 44 local governments and nonprofit organizations participating in the Weatherization Assistance Program (Weatherization Program). From this award, \$8,922,699 was allocated to Travis County Health & Human Services and Veterans Services (Travis County) to assist with the costs of weatherizing approximately 1,060 homes. The Texas Department of Housing and Community Affairs (Texas) administers the Weatherization Program.

Travis County collaborates with Texas to operate the Weatherization Program. In accordance with the terms of this agreement, Travis County is responsible for determining applicant eligibility and taking the necessary steps to weatherize the applicant's home. These steps include procurement of contractor services as well as conducting home assessments and inspections.

The Weatherization Program helps eligible low-income households lower their energy costs by increasing energy efficiency. Energy conservation and efficiency methods utilized by the Weatherization Program include measures that reduce energy consumption and the cost of maintenance for weatherized homes. In addition to the material improvements, energy conservation education is provided to participants. For the period from April 1, 2009 through June 30, 2011, Travis County reported that it had completed weatherization of 876 units under the Weatherization Program.

## **SECTION II. Classification of Findings**

The findings in this report are classified as follows:

### **Significant Deficiency**

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects Travis County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

### **Advisory Comment**

An advisory comment represents a control deficiency that is not significant enough to adversely affect Travis County's ability to record, process, summarize, and report data reliably. The advisory comment presented represents matter that came to our attention during the course of the review, and is offered to Travis County's management as an opportunity for improvement. The advisory comment is provided along with suggestions and discussion of the significance of the comments.

**SECTION III. Summary of Findings**

1. Eligibility for Weatherization Services Under the Recovery Act – Significant Deficiency
2. Weatherization Cost Support and Approval – Advisory Comment

**SECTION IV. Schedule of Findings****Finding 1. Eligibility for Weatherization Services Under the Recovery Act – Significant Deficiency****Condition**

Travis County had not ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed. A dwelling unit is considered "designated for acquisition or clearance" if it becomes subject to imminent domain or foreclosure proceedings. The Texas Weatherization Field Guide and the Texas Weatherization Grant Agreement, consistent with the Federal requirements, define an eligible applicant for the Weatherization Program as an applicant whose unit was not designated for acquisition or clearance by a Federal, state, or local program within 12 months from the date of weatherization. Section 5 of the Texas Grant Agreement states, "...Department is not liable for any cost incurred by Sub-recipient which is incurred to weatherize a dwelling unit which is designated for acquisition or clearance by a federal, state, or local program within twelve months from the date weatherization of the dwelling unit is scheduled to be completed."

**Cause**

Travis County personnel tasked with the administration of the Weatherization Program were not aware of the Federal and state requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.

**Effect**

There is an increased risk that Travis County may have improperly provided weatherization services to ineligible applicants and dwelling units, thereby, reducing the amount of Recovery Act funds available for eligible applicants and dwelling units.

**Recommendation**

We recommend that Travis County:

- 1.1 Include in its application procedures specific inquiries to determine whether the homeowner is aware of any potential Federal, state or local program's designation of their home for acquisition or clearance.

**SECTION IV. Schedule of Findings (Cont.)**

**Management Response**

Travis County concurs with the recommendation, and will include the following in its application procedures effective February 1, 2013:

"The landlord, home owner, or property owner certifies that, to the best of their knowledge, the dwelling unit to be weatherized is not designated for acquisition or clearance by a Federal, State, or local program within 12 months from the date of completion of weatherization of the dwelling unit."

**Auditor Response**

Management's comments and actions taken are responsive to our finding.

**SECTION IV. Schedule of Findings (Cont.)****Finding 2. Weatherization Cost Support and Approval – Advisory Comment****Condition**

In our review of documents supporting weatherization cost transactions, we found numerous instances in which cost approvals were not consistently documented. Supporting documentation is required to demonstrate that the Recovery Act costs are allowable, authorized and approved. In accordance with Federal guidelines, Travis County's weatherization agreement requires Recovery Act supporting documentation be signed and dated by authorized approving officials. We noted, in 33 client files out of the 45 we reviewed, signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

**Cause**

Travis County attributed documentation deficiencies to its de-centralized operations, and added that the client files we reviewed may not have contained the final version of procurement documents that reflected all levels of approval. Travis County officials stated the agency's financial system could not process the procurement documents without purchase order number generated by the Finance Division, thus the approval was tacitly obtained.

Subsequent to our identification of deficient cost support, Travis County provided documentation, which contained previously omitted signatures of Housing Services staff and Program Manager, the Finance Manager (or designee) and the County Executive. Additionally, Travis County's Procurement Division requires the Labor Standards Officer (LSO) to certify weatherization invoices for appropriateness, completeness and Davis-Bacon Act compliance prior to submission to the County Auditor for payment processing. The LSO's signature is evidence of the weatherization vendor's compliance with contract requirements.

**Effect**

As a result of the lack of proper documentation and approvals, the risk that errors and irregularities could occur and not be detected in a timely manner is increased.

**Recommendation**

We recommend that Travis County:

- 2.1 Review weatherization cost support in detail to ensure that documentation meets the procurement guidelines of the Weatherization Program, and are properly approved by authorized officials.

**SECTION IV. Schedule of Findings (Cont.)**

**Management Response**

Travis County did not concur with the finding; however, it acknowledged that the cost support documents were not in the files at the time of the audit. Travis County stated that the Finance Department maintains the final original copy of these documents, which were available for review during the examination. Finally, authorized Travis County officials approved and signed all required procurement documents. Documentation submitted to and received by the independent accountant supports these statements.

**Auditor Response**

We acknowledge receipt of cost documents signed by the appropriate approving officials subsequent to our examination and have credited Travis County for this action.

**SECTION V. Management Response**



**TRAVIS COUNTY HEALTH and HUMAN SERVICES  
and VETERANS SERVICE**  
502 E. Highland Mall Blvd.  
P. O. Box 1748  
Austin, Texas 78767

**Sherri E. Fleming**  
County Executive for HHS/VS  
(512) 854-4100  
Fax (512) 279-1608

January 18, 2013

Shona Mollison  
Lani Eko & Company, CPAs, PLLC  
110 S. Union Street, Suite 301  
Alexandria, VA 22314

Ms. Mollison,

Attached is our response to the finding and advisory comment prepared by your firm in regard to an audit of the Travis County Health and Human Services and Veterans Service ARRA grant for the period of April 1, 2009 through June 30, 2011.

Sincerely,

A handwritten signature in cursive script that reads "Sherri E. Fleming".

Sherri E. Fleming  
County Executive for Health and Human Services  
And Veterans Service

**SECTION V. Management Response (Cont.)**



**Section IV. Schedule of Findings**

**Finding 1. Eligibility for Weatherization Services Under the Recovery Act-  
Significant Deficiency**

**Recommendation:**

We recommend that Travis County:

- 1.1 Include in its application procedures specific inquiries to determine whether the homeowner is aware of any potential Federal, state or local program's designation of their home for acquisition or clearance.

**Management Response**

Travis County Health and Human Services and Veterans Service Department is in concurrence with the recommendation, and will include the following in its application procedures effective February 1, 2013:

"The landlord, homeowner, or property owner certifies that, to the best of their knowledge, the dwelling unit to be weatherized is not designated for acquisition or clearance by a Federal, State, or local program within 12 months from the date of completion of weatherization of the dwelling unit."

**Finding 2. Weatherization Cost Support and Approval – Advisory Comment**

**Recommendation**

We recommend that Travis County

- 2.1 Review weatherization cost support in detail to ensure that documentation meets the procurement guidelines of the Weatherization Program, and are properly approved by authorized officials.

**SECTION V. Management Response (Cont.)**

**Management Response**

Travis County Health and Human Services and Veterans Service Department does not concur.

All procurement guidelines of the weatherization program were followed and properly approved by authorized officials. We do acknowledge that the signed hard-copy procurement (ATP's) documents were not in the files at the time of the audit. The final original copies of these documents were maintained by the Finance department and were available for review during the audit. Finally, all required procurement documents were approved and signed by authorized Travis County officials. These statements are supported by documentation that has been submitted to and received by Lani Eko & Company.

**DEPARTMENT COMMENTS****Department of Energy**

Washington, DC 20585

March 22, 2013

MEMORANDUM FOR: RICKEY R. HASS  
DEPUTY INSPECTOR GENERAL  
FOR AUDITS AND INSPECTIONS  
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN   
DEPUTY ASSISTANT SECRETARY  
FOR ENERGY EFFICIENCY  
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to Office of Inspector General Draft Examination Report on  
"Travis County Health & Human Services and Veterans Services –  
Weatherization Assistance Program Funds Provided by the American  
Recovery and Reinvestment Act of 2009"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) March 2013 draft Examination Report for Travis County Health & Human Services and Veterans Services a Subgrantee of the Texas Weatherization Assistance Program (WAP). EERE provides guidance and support to all grantees pursuant to Code of Federal Regulations (CFR), 10 CFR 600 and 2 CFR 225 (A-87). Also, when applicable, EERE will provide grantees with guidance pursuant to 2 CFR 220 (A-21), 2 CFR 230 (A-122) and 10 CFR 400. EERE seeks to ensure compliance with Federal regulations through ongoing monitoring and communications with grantees.

The independent auditor expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period April 1, 2009 through June 30, 2011. EERE concurs with the OIG's recommendation and has been working with the State of Texas WAP to ensure that corrective actions are implemented. The following response by EERE addresses the OIG finding as outlined in the draft examination report:

*OIG Recommendation 1: Ensure appropriate action is taken by the State of Texas to improve administration of Recovery Act Weatherization Program funds at Travis County Health & Human Services and Veterans Services.*

EERE Response: The state of Texas has enhanced their monitoring review to ensure that Subgrantee files contain appropriate documentation of internal controls. It should be noted that the WAP Project Officer (PO) participates in weekly calls with the Grantee and has been



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routinely informed of the progress being made in Travis County and the improvements being implemented by the State Office. The PO also receives weekly production reports for all sub-grantees and uses this tool to monitor production effort and identify problems with particular agencies like Travis County.

In February 2012, an on-site visit to the state WAP office was conducted by the PO to determine whether the required changes and improvements had been implemented by the sub-grantee; Travis County was included in the portfolio of subgrantees reviewed in the field at that time. The PO determined that the progress was incomplete and recommended to the Grantee that Travis County have a Corrective Action Plan developed and that all reimbursement costs be subject to additional review. EERE will verify the Texas' monitoring approach and that all corrective actions were fully implemented during the next on-site visit scheduled for August 2013.

**STATE OF TEXAS COMMENTS**



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

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

Rick Perry  
GOVERNOR

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J. Mark McWatters

April 2, 2013

*Writer's direct phone # 512/475-2125  
Email: michael.deyoung@tdhca.state.tx.us*

Mr. Jack Rouch  
Director Central Audits Division  
Office of Inspector General  
Department of Energy  
Washington, DC 20585

Dear Mr. Rouch:

The Department is responding to your request for review and Comment of the draft report for Travis County Health and Human Services and the administration of the American Recovery and Reinvestment Act (ARRA) Weatherization Assistance Program (WAP) report compiled by Lani Eko & Company, CPAs PLLC.

The Department has reviewed the draft report and submits the following comments:

**Finding #1 – Eligibility for Weatherization Services under the Recovery Act - Significant Deficiency**

The Department concurs with the recommendation that Travis County include an inquiry at the time of the client's application in an effort to mitigate the risk of federal funds being expended on ineligible dwelling units. The Department will follow up to ensure that the proposed mitigation is in effect at the time of the next monitoring of Travis County.

**Finding #2 – Weatherization Cost Support and Approval – Advisory Comment**

The Department concurs with the recommendation to review the WAP support documentation to ensure the proper approval is received and documented. The department responsible for the approval and retention of the documentation is separate from the Housing office at Travis County. This separation of duties is considered a "best practice" and supports the internal control structure. If the documents were available for review at the time of the monitoring, it is troublesome that the efforts of the auditor did not include a visit to the Finance Department to review the documents.



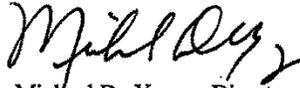
Office of Inspector General – Travis County  
April 2, 2013  
Page 2

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The Department appreciates the opportunity to respond to the identified issues and appreciates the efforts of DOE and the OIG to improve the implementation of the WAP program in the State of Texas.

If you have additional questions or need clarification please contact me at 512/475-2125.

Respectfully,



Michael De Young, Director  
Community Affairs Division

mdy

cc: Sandy Donoho  
Brooke Boston



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

April 26, 2013

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

**RECEIVED**

**MAY 13 2013**

**TDHCA SECTION 8**

Dear Ms. Hurd:

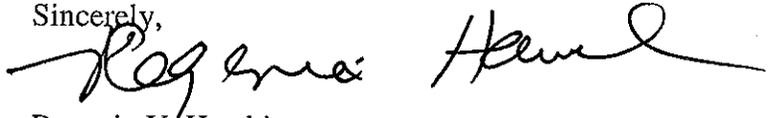
Congratulations on your Section Eight Management Assessment Program (SEMAP) rating as a High Performer. We appreciate your time and attention to the SEMAP assessment process. The SEMAP is designed to:

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

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

Public Housing Information (PIC) System: Louis Bell 817-978-5693  
Management/Administration of Section 8: Ethel Montague 817-978-5717  
SEMAP Process: Regina Jones 817-978-5706

Sincerely,

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

Regenia Y. Hawkins  
Director  
Office of Public Housing

Enclosure

The **TDHCA** final SEMAP score for the fiscal year ended **12/31/2012** is **100**. The following are your scores on each indicator:

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

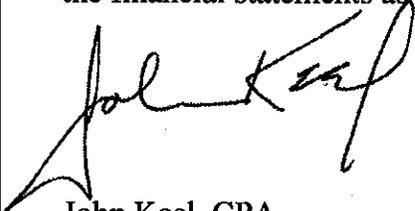
## Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. Lowell A. Keig  
Mr. J. Mark McWatters

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2012, and have issued our report thereon dated December 20, 2012, which contained an unqualified opinion on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying Federal Data Schedule is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Affairs, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule is fairly stated in all material respects in relation to the financial statements as a whole.



John Keel, CPA  
State Auditor

June 26, 2013

COPY

July 12, 2013

Mr. Timothy Irvine  
221 East 11th Street  
Austin, TX 78701

Dear Mr. Irvine,

The National Foreclosure Mitigation Counseling (NFMC) program would like to thank you for your response to the Round 6 Random Review and subsequent appeals process. As a recipient of NFMC funding, your organization as well as sub-grantees, branches, and/or affiliate offices are subject to site visits, file audits, and other measures to ensure program compliance.

NFMC conducted a remote review of requested client files for your organization. Your organization was required to respond to the request with documented evidence demonstrating compliance with NFMC Program guidelines. NFMC staff has reviewed your response and the documents provided as part of the appeals process, and determined the following:

**Your organization cured all Findings; all required documented evidence was submitted. No further action is required.**

Thank you for your participation in the NFMC Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMC to provide a web-ex or other instructional material regarding NFMC Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Quality Control and Compliance".

Thank you for your time and consideration.

Sincerely,



Tonya Sims  
Director, Quality Control and Compliance, National Foreclosure Mitigation Counseling Program

NeighborWorks® America

999 North Capitol Street, N.E. ▶ Suite 900 ▶ Washington, DC 20002 ▶ 202.760.4000 ▶ [nw.org](http://nw.org)

---

Working Together for Strong Communities



pcode:		5041	Organization Name:					Texas Department of Housing and Community Affairs			Organization Type:		Housing Finance Agency				
pcode	Branch ID	Client ID	Round	Counseling Level	Have All Required Documents?	Have all Service Related Documents?	Number of Missing Documents	All Levels			Level 1				Level 2		
								Did they have an Authorization Form	Did they have a Disclosure	Did they have a Privacy Statement	Intake	Action Plan	Budget	MHA Eligibility	Budget Verification	Steps Taken on the Action Plan	Close Out Documentation
5041	Main	111010	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5386282	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5423202	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	4693	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	104034	6	2	Yes	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5204	6	2	Yes	Yes	0	Cured	Cured	Cured	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5406179	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	2266	6	2	No	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5410825	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5249640	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	1981924	6	2	No	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	325	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5390510	6	1	No	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5388299	6	1	No	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	109097	6	1	No	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A

**Client ID # 5406179, 5410825, 5249640, 5390510, 5388299**

**Authorization documents:** While we have received your updated authorization documents as well as the letters written to each client regarding the documents, we are still unable to verify that these documents have been sent. Please submit documentation such as postal receipts or email correspondences that verify that the documents have been sent to the clients listed above.

**Recommendation**

**Client ID # 5204 Signed Authorization:** In your Authorization form there is language that states NFMC program administrators and/or their agents are permitted to pull a client's credit report up to four additional times. Please remove this language from the Authorization forms you use for NFMC programs as NFMC does not request this right and does not pull clients' credit reports.



John Keel, CPA  
State Auditor

State of Texas Financial Portion of the  
**Statewide Single Audit Report**  
**for the Year Ended**  
**August 31, 2012**

February 2013  
Report No. 13-555



State of Texas Financial Portion of the  
**Statewide Single Audit Report for the  
Year Ended August 31, 2012**

SAO Report No. 13-555  
February 2013

## Overall Conclusion

In our audit opinion dated February 21, 2013, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2012. The Office of the Comptroller of Public Accounts published our audit opinion as part of the Comprehensive Annual Financial Report for fiscal year 2012, which it has posted on its Web site at <http://www.window.state.tx.us/finances/pubs/cafr/>.

The financial statements provide a comprehensive view of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking.

The financial statements convey the use of approximately \$120.5 billion during the fiscal year, a decrease of \$4.1 billion or 3.3 percent since the prior fiscal year.<sup>1</sup> The State's assets on August 31, 2012, totaled \$231.4 billion, an increase of \$19.5 billion or 9.2 percent since the prior fiscal year. The State's cash and cash equivalents increased by \$10.1 billion since the prior fiscal year. The State sold approximately \$9.8 billion in State of Texas Tax and Revenue Anticipation Notes on August 21, 2012; that amount was approximately the same amount the State sold in the prior fiscal year.

### Basic Financial Statements

The State's basic financial statements include both government-wide and fund financial statements:

- Government-wide financial statements display information about the State as a whole, except for its fiduciary activities.
- Fund financial statements for the State's governmental and proprietary funds provide information on the major funds individually and nonmajor funds in the aggregate. Fiduciary statements include financial information for fiduciary funds.

<sup>1</sup> The \$120.5 billion in annual expenditures exceeded the \$96.1 billion appropriated for fiscal year 2012 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily on a cash basis.

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses in information technology access controls that the Texas Education Agency should correct to improve the reliability of its financial information. Those weaknesses are discussed in Chapter 2-A of this report.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) in relation to the Comprehensive Annual Financial Report for fiscal year 2012. The Office of the Comptroller of Public Accounts prepares the SEFA by using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP (KPMG) audited the processes for preparing SEFA information at 17 agencies and 13 higher education institutions. That audit work included following up on SEFA findings identified in audits of prior fiscal years at 3 agencies and 9 higher education institutions. Auditors identified errors related to the SEFA information at 3 agencies and 7 higher education institutions. Those errors are discussed in Chapter 2-B of this report.

To avoid duplication of effort, the State Auditor's Office relies on KPMG's testing of the internal controls over certain systems and processes. While testing the State's compliance with federal requirements, KPMG identified a material weakness in the managed care program at the Health and Human Services Commission that was caused by inadequate segregation of duties and the use of a manual calculation process for payments to managed care organizations. The managed care program is material to the State's financial statements, and total payments to managed care providers for fiscal year 2012 totaled approximately \$9 billion. The material weakness KPMG identified is related to both financial processes and federal compliance. As of April 2012, the managed care program includes approximately 85 percent of the individuals covered by Medicaid in Texas. For more information see finding 13-14 in *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit are used primarily by companies that review the State's fiscal integrity to rate state-issued bonds, the Legislature, and by federal agencies that award grants.

## ***Key Points***

**The financial systems and controls at the agencies audited enable the State to prepare materially accurate basic financial statements.**

The financial systems and controls at the four agencies audited and included in this report (the Health and Human Services Commission, the Office of the Comptroller of Public Accounts, the Texas Education Agency, and the Texas Workforce Commission) enable the State to prepare materially accurate basic financial statements.

However, auditors identified weaknesses in information technology access controls at the Texas Education Agency.

**Certain agencies and higher education institutions should strengthen their processes for preparing and reporting information on their SEFAs.**

Auditors identified errors significant to the accuracy of the SEFAs prepared by 10 (33 percent) of the 30 agencies and higher education institutions at which SEFA information was audited. Those errors were caused by a lack of adequate preparation and review of SEFA information at those agencies and higher education institutions. In addition, some higher education institutions incorrectly prepared their SEFAs by award year instead of by fiscal year for federal funds from the Student Financial Assistance cluster of federal programs.

Auditors communicated less significant financial reporting or SEFA issues to management of certain agencies and higher education institutions in writing.

## ***Summary of Management's Responses***

The agencies and higher education institutions generally agreed with the recommendations in this report.

## ***Summary of Information Technology Review***

Auditors reviewed the significant accounting and information systems at the agencies audited. Specifically, auditors identified systems that compiled and contained data used to prepare the Comprehensive Annual Financial Report and then reviewed basic data protection controls such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control weaknesses at the Texas Education Agency. Correcting those weaknesses will help to ensure the reliability of that agency's financial information.

## **Summary of Objective, Scope, and Methodology**

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2012.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor.

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with KPMG to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012* by KPMG.

The audit methodology consisted of collecting information, identifying risk, conducting data analyses, performing selected audit tests and other procedures, and analyzing and evaluating results against established criteria. Auditors assessed the reliability of data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

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# **Independent Auditor's Report**

*State of Texas Financial Portion of the  
Statewide Single Audit Report for the  
Year Ended August 31, 2012*

## Summary of Auditor's Results

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### Financial Statements

- |  |             |
|--|-------------|
| 1. Type of auditor's report issued:  | Unqualified |
| 2. Internal control over financial reporting:                                    |             |
| a. Material weakness identified?   | No          |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes         |
| c. Noncompliance material to financial statements noted?                         | No          |

### Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2012 was included in Chapter 2-B of this report. All other fiscal year 2012 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*, by KPMG LLP).



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Comptroller of Public Accounts  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Joe Straus III, Speaker of the House of Representatives  
and  
Members of the Texas Legislature  
State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2012, and have issued our report thereon dated February 21, 2012. Our report includes a reference to other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the entities listed below in the section titled "Work Performed by Other Auditors." This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the Texas Local Government Investment Pool (TexPool) were not audited in accordance with *Government Auditing Standards*.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

**Internal Control Over Financial Reporting**

Management of state agencies and higher education institutions is responsible for establishing and maintaining effective internal control over the State's financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Summary of Findings	
Agency or Higher Education Institution	Finding Numbers
Texas Education Agency	13-555-01
Multiple agencies and higher education institutions	13-555-02

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the entities audited in writing.

## Work Performed by Other Auditors

The State Auditor's Office did not audit the entities and funds listed in the table below. These entities were audited by other auditors.

Entities Audited by Other Auditors	Scope of Work Performed
Texas Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2012.
The University of Texas System	An audit of the consolidated balance sheet of the University of Texas System, as of and for the year ended August 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended was conducted.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2012, and August 31, 2011.

This report, insofar as it relates to the entities listed in the table above, is based solely on the reports of the other auditors.

## Other Work Performed by the State Auditor's Office

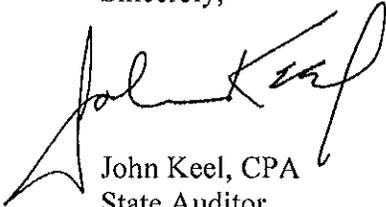
We issued opinions on the following financial statements, which are consolidated into the basic financial statements of the State of Texas:

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-009, November 2012).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-012, December 2012).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-014, December 2012).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-015, December 2012).
- *A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund* (State Auditor's Office Report No. 13-016, January 2013).
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2012 Financial Statements* (State Auditor's Office Report No. 13-017, January 2013).

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor, the Legislature, audit committees, boards and commissions of the State, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

John Keel, CPA  
State Auditor

February 21, 2013

5b



# TEXAS DEPARTMENT OF PUBLIC SAFETY

5805 N. LAMAR BLVD. - BOX 4143 - AUSTIN, TEXAS 78765-4143  
CRIME RECORDS SERVICE  
512 / 424-7364



STEVEN C. McCRAW  
DIRECTOR  
DAVID G. BAKER  
CHERYL MacBRIDE  
DEPUTY DIRECTORS

COMMISSION  
A CYNTHIA LEON, CHAIR  
CARIN MARCY BARTH  
ADA BROWN  
ALLAN B. POLUNSKY  
RANDY WATSON

January 15, 2013

Ms. Willie Faye Hurd, Section 8 Manager  
Texas Department of Housing & Community Affairs  
P O Box 13941  
Austin, Texas 78711-3941

Subject: Texas Dept. of Public Safety On-Site Audit

Dear Ms. Hurd:

Enclosed is the report on your recent non-criminal justice audit, which was performed on January 15, 2013 by Janet Raeke, Field Representative from the Texas Department of Public Safety. The audit consisted of an interview with you, as designated by your service. The interview specifically covered the non-criminal justice audit process as it pertains to state and federal laws.

After the interview, the auditor performed an audit on the access, use, dissemination, storage, security, and destruction of criminal history record information.

**No areas of non-compliance were found.**

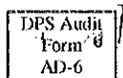
If you have any questions in regard to the results of this audit, please contact Susie Dial, Access and Dissemination Bureau Supervisor, at 512-424-7927.

Sincerely,

Mike Lesko, Deputy Assistant Director  
Law Enforcement Support Division  
Crime Records Service

ML/jmr

JAN 17 2013



# TEXAS DEPARTMENT OF PUBLIC SAFETY

5805 N LAMAR BLVD • BOX 4143 • AUSTIN, TEXAS 78765  
CRIME RECORDS SERVICE  
512/424-7364



STEVEN C. McCRAW  
DIRECTOR  
DAVID G. BAKER  
CHERYL MacBRIDE  
DEPUTY DIRECTORS



COMMISSION  
A. CYNTHIA LEON, CHAIR  
CARIN MARCY BARTH  
ADA BROWN  
ALLAN B. POLUNSKY  
RANDY WATSON

January 15, 2013

## NON-CRIMINAL JUSTICE AUDIT REPORT *Texas Department of Housing and Community Affairs* *Section 8 Housing* *7421490H - 0052E*

### SUMMARY

The Texas Department of Public Safety (DPS) and Federal Bureau of Investigation (FBI) have established audit programs for the purposes of evaluating a non-criminal justice agency's compliance with state and federal statutes, regulations, policies, and procedures for the access, use, dissemination, storage, security, and destruction of criminal history record information.

### TRAINING

During training, the following topics and others not listed here were discussed as baseline security awareness for all authorized personnel with access to criminal history record information: statutes and rules that describe the responsible access and dissemination of criminal history record information; protection of confidential information; threats, vulnerabilities, and risks associated with the handling of criminal history record information; visitor control and physical access to areas containing criminal history record information; electronic storage; destruction; and penalties for non-compliance.

As a reminder, *all* personnel with access to the DPS Secure Site must pass a DPS criminal history check. If you have any questions, please contact us at 512-424-7364.

### AUDIT RESULTS

The DPS Access and Dissemination Bureau's Training and Audit Unit, recently conducted an on-site audit in reference to the security of the criminal history record information your agency receives through secure databases from the DPS, and if applicable, the FBI. This audit report is based on Texas and Federal law regulating the access and dissemination of criminal history record information. [Reference: Texas Government Code 411 and the CJIS Security Policy].

### AREAS AUDITED

#### ACCESS TO CRIMINAL HISTORY RECORD INFORMATION

Policy: Texas Government Code 411.083(b) (2) requires the DPS to grant access to non-criminal justice agencies authorized by state or federal statute, or executive order to receive criminal history record information.

A non-criminal justice entity must provide the DPS with the name, sex, race, date of birth, and working title of each employee/official who will access and utilize information received from DPS databases. The DPS will conduct a name-based criminal history record check on each name submitted, and reserves the right to require a fingerprint-based criminal history record check on any employee/official. Only persons approved by the DPS will be granted access to DPS databases or information on behalf of the non-criminal justice entity. Any person who is not granted access due to the results of the name-based criminal history record check may dispute the findings through the submission of their fingerprints.

*Important: The DPS reserves the right to limit the number of authorized employees/officials with access to DPS databases and information. In addition, DPS will strictly enforce the most restrictive set of rights, privileges, and guidelines governing access to DPS databases and information.*

**Finding: In-Compliance**

**Required Action(s): None**

**USE OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Texas Government Code 411.084(a) Criminal history record information obtained from the department under this subchapter, including any identification information that could reveal the identity of a person about whom criminal history record information is requested and information that directly indicates or implies involvement of a person in the criminal justice system: (1) is for the exclusive use of the authorized recipient of the information; and (2) may be disclosed or used by the recipient only if, and to the extent that, disclosure or use is authorized or directed by: (A) this subchapter; (B) another statute; (C) a rule adopted under a statute; or (D) an order of a court of competent jurisdiction.

(a-1) The term "criminal history record" information under Subsection (a) does not refer to any specific document produced to comply with this subchapter but to the information contained, wholly or partly, in a document's original form or any subsequent form or use.

(b) Notwithstanding Subsection (a) or any other provision in this subchapter, criminal history record information obtained from the Federal Bureau of Investigation may be released or disclosed only to a governmental entity or as authorized by federal law and regulations, federal executive orders, and federal policy.

(c) An agency or individual may not confirm the existence or nonexistence of criminal history record information to any person that is not eligible to receive the information.

**Finding: In-Compliance**

**Required Action(s): None**

**DISSEMINATION OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Texas Government Code 411.083(a) Criminal history record information maintained by the department is confidential information for the use of the department and, except as provided by this subchapter, may not be disseminated by the department. (b) The department shall grant access to criminal history record information to: (2) non-criminal justice agencies authorized by federal statute or executive order or by state statute to receive criminal history record information.

(d) The department is not required to release or disclose criminal history record information to any person that is not in compliance with rules adopted by the department under this subchapter or rules adopted by the Federal Bureau of Investigation that relate to the dissemination or use of criminal history record information.

*Important: Access to DPS and FBI criminal history record information by authorized employees/officials is subject to cancellation if dissemination of information is made outside the receiving department, related agency, or authorized entity. In addition, access to DPS and FBI criminal history record information may not be disseminated to a person not authorized to receive the information. Criminal penalties (Government Code 411.085) are also in place for the improper dissemination of criminal history record information.*

**Finding: In-Compliance**

**Required Action(s): None**

**STORAGE AND SECURITY OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Agencies are required to establish appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security and integrity.

Per the DPS Secure Databases and CJIS Security Policies: the computer site and/or terminal area must have adequate physical security to protect against any unauthorized personnel gaining access to the computer equipment or to any stored data; the location of all criminal history record information received from the DPS and FBI must have adequate physical security to protect against any unauthorized viewing or access to displayed, stored or printed criminal history record information at all times; passwords must be secure to prevent unauthorized access; the auto save password feature should be disabled to prevent unauthorized logon; ensure that computer terminals have session lock features of less than thirty minutes; user access must be terminated when access is no longer authorized; file cabinets must have locks; and if your agency is utilizing the Fingerprint-based Applicant of Texas Clearinghouse (FACT), records must be unsubscribed to if you no longer are entitled to access, per Government Code 411.0845.

**Finding: In-Compliance**

**Required Action(s): None**

**DESTRUCTION OF CRIMINAL HISTORY RECORD INFORMATION**

Policy: Destruction of criminal history record information must be performed by authorized users. Agencies with access to criminal history record information must follow their 411 statute regarding the destruction of criminal history record information. If the 411 statute does not provide a destruction timeframe, then the agency should follow the recommended timeframe presented during training or contact the training and audit unit to discuss a reasonable timeframe.

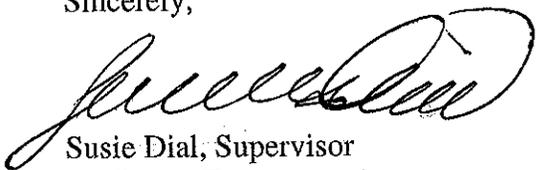
**Finding: In-Compliance**

**Required Action(s): None**

**OTHER RECOMMENDATIONS OR MINOR INFRACTIONS**

N/A

Sincerely,

A handwritten signature in cursive script, appearing to read "Susie Dial".

Susie Dial, Supervisor  
Audit and Training Unit  
Access and Dissemination Bureau  
Crime Records Service

5c



## Department of Energy

Golden Field Office  
1617 Cole Boulevard  
Golden, Colorado 80401-3393

February 22, 2013

Mr. Michael DeYoung  
Executive Director  
Texas Department of Housing and Community Affairs  
P.O. Box 13941  
Austin, Texas 78711-3941

RECEIVED  
FEB 26 2013

COMMUNITY AFFAIRS

**Subject: DOE on-site Monitoring Report of the DOE Weatherization Assistance Program**

Dear Mr. DeYoung,

On February 11<sup>th</sup> to 14<sup>th</sup>, 2013, Paul Jiacoletti Project Officer with the United States Department of Energy Golden Field Office, conducted an on-site monitoring assessment of the DOE Weatherization Assistance Program, administered by the Northern Arapaho Tribe. Attached is a report on the results of the visit.

The monitoring assessment included a review of administrative, financial and programmatic aspects of the State of Texas Weatherization Assistance Program, (WAP). Please find enclosed the DOE Monitoring Report and on-site checklist which summarize observations and recommendations made during the monitoring visit. There were no findings or concerns contained in the report.

Please contact me if you have any questions or concerns about this report. I may be reached at [paul.jiacoletti@go.doe.gov](mailto:paul.jiacoletti@go.doe.gov) or at (720) 356-1632.

I look forward to continued interaction with you and your staff in the effective implementation and operation of the Weatherization Assistance Program.

Thank you for the cooperation and assistance your staff provided during the visit.

Sincerely,

Paul Jiacoletti  
Project Officer

cc: Kerry Hebert, GSC  
Andrea Lucero, GSC  
Paul Jiacoletti GSC





**DOE ONSITE MONITORING REPORT WEATHERIZATION ASSISTANCE  
PROGRAM STATE OF TEXAS**

**Weatherization Assistance Program On-Site Monitoring Visit Report**

**GRANTEE:** STATE OF TEXAS  
P.O. BOX 13941  
AUSTIN TX, 787113941

**DATES:** 02/11/2013 - 02/14/2013

**GRANT:** EE0000190

**SUMMARY:**

---

On 02/11/2013 - 02/14/2013, U.S. Department of Energy (DOE) Project Officer, Paul Jiacoletti, conducted an onsite monitoring assessment of STATE OF TEXAS 81.042 - Weatherization Assistance for Low-Income Persons (WAP).

As part of DOE's monitoring review the following Subgrantees were visited:

- Combined Community Action Agency

Monitoring Assessments were identified during this visit and are included in the report. The Grantee will be required to provide Corrective Action Plans for all findings and concerns identified in the checklists. DOE also requests that the Grantee respond to recommendations. The Grantee's response should be received within 30 calendar days of the date of this report. **THERE ARE NO FINDINGS OR CONCERNS AS A RESULT OF THIS VISIT.**

**PURPOSE OF REVIEW:**

---

The onsite monitoring assessment was conducted in order to fulfill monitoring and oversight requirements of the DOE Weatherization Program.

The purpose of this monitoring assessment is to:

- Assess the Grantee's adherence to their State Plan.
- Identify program strengths and areas for improvement.
- Evaluate the Grantee's monitoring and oversight of Subgrantees.
- Verify compliance with federal and state regulations, policies and procedures.
- Identify accomplishments and success stories.
- Determine what DOE can do to assist the Grantee to be more successful in its implementation of the program.

## PROCESS:

---

### Participants:

Paul Jacoletti	Department of Energy	Project Officer
Tim Irvine	Texas Dept. of Housing and Community Affairs	Executive Director
Stephen Jung	Texas Dept. of Housing and Community Affairs	Project Manager-Training
Sharon Gamble	Texas Dept. of Housing and Community Affairs	Project Manager-Planning
J.R. Mendoza	Texas Dept. of Housing and Community Affairs	Monitoring Manager
Derrick Miller	Texas Dept. of Housing and Community Affairs	Staff Auditor
Michael DeYoung	Texas Dept. of Housing and Community Affairs	Program Manager
Cathy Collingsworth	Texas Dept. of Housing and Community Affairs	Program Manager-Finance
Sandy Donoho	State of Texas	Internal Audit Director
David Cervantes	State of Texas	Director, Financial Admin
Esther Ku	State of Texas	Manager, Accounting

The monitoring visit was designed to monitor the assistance award provided under the Department of Energy (DOE) Weatherization Assistance Program (WAP) and administered by the Texas Department of Housing and Community Affairs in Austin, Texas. The annual WAP award (EE-0000190) was reviewed during this visit.

The first day of the visit, February 11<sup>th</sup>, was spent traveling to Austin, Texas and due to Grantee staff scheduling commitments with legislative hearings; I was unable to visit with the Grantee on this date.

The second day of the visit, February 12<sup>th</sup> was spent reviewing questions on the monitoring checklist. The responses to monitoring protocols were provided by J.R. Mendoza who discussed the scheduled monitoring trips, protocols and the new monitoring tool the Grantee is using as a part of the overall monitoring process for the Compliance Division. Stephen Jung provided training schedules and spreadsheet, documentation for completion of requested training classes from sub-grantee agency personnel and grantee personnel. I also had an opportunity to review the NEAT/MHEA audit libraries with Ms. Laura Saintey of the Training Department for the Combined Community Action Agency. I met with Ms. Esther Ku to discuss the processes and protocols for the Grantee. This discussion included answers to document the methods used financial processes and procedures to ensure that sufficient checks and-balances-exist-for-expenditures-and-that-systems-are-in-place-to-prevent-fraud,-waste-and-abuse-of-the-federal-investment-for-this-program. I requested and was provided copies of invoices which documented the process for payment of invoiced costs associated with the Weatherization Program. These copies appear to demonstrate that controls are in place which provide sufficient oversight to ensure that costs are allowable, allocable and reasonable. I also spent time in discussions with Michael DeYoung during this period of time to verify that the Grantee has in place the required rental agreements, Historic Review protocols, and still maintains a database which identifies units which have been weatherized during the preceding program years. I also requested and was provided a link to the TDHCA (Texas Department of Housing and Community Affairs) web-site where the information is stored and accessible for use by sub-grantee agency personnel. Mr. DeYoung and I also discussed the protocols for eligibility determination in the program. I also took the opportunity to visit briefly with Brenda Hull to determine how TDHCA will administer Davis-Bacon payroll information and enforcement reporting when Texas begins the final administration of the remaining ARRA funding. Davis-Bacon is not a requirement for this award; however I had an interest in determining how the Grantee will again administer this award requirement. Prior to leaving the grantee office for the day, Mr. DeYoung and I discussed the arrangements for the site visit to Combined Community Action Agency in Giddings, Texas and the travel schedule to the outskirts of Houston to review completed and in-progress units. Mr. DeYoung and I also discussed the ARRA

award balance (#EE-0000094) which has been awarded through the National Energy Technology Laboratory and will be administered through September 30<sup>th</sup> of this year. Mr. DeYoung expressed confidence that the Grantee should achieve full expenditure of the remaining ARRA funds while achieving the production of 187 units.

The third day, February 13<sup>th</sup>, was spent traveling in the morning to Houston to review completed units which had received Weatherization Services by the Giddings, TX agency. After reviewing units in the morning, we drove back to Giddings to complete more file reviews and discuss the sub-grantee checklist questions with the Executive Director, Ms. Kelly Franke. When this was completed, I thanked Ms. Franke for her time and her staff cooperation and we returned to Austin.

The fourth day, I returned to the office to complete the final discussions for the financial/administrative section of the Grantee checklist with Ms. Cathy Collingsworth. We discussed the systems in place to track capped cost categories, the tracking tools in use for receipt of funds from more than one funding source, contract requirements, reviewed the Grantee process for reviewing invoices for allowable costs and reporting requirements for both invoices and programmatic reporting. Ms. Collingsworth and I also discussed the timeline for submittal of State WAP plans and I conveyed to her that the process would change and encouraged her to review the guidance found in Weatherization Program Notice 13-1 and the application instructions. We also discussed briefly the possibility of running concurrent grants if full expenditures were not achieved with this award during the program year. When requested, Ms. Collingsworth provided an up-to-date expenditure report which indicated that the Grantee has spent considerable additional funding since their last quarterly reports. If expenditure rates continue, the Grantee should be able to fully expend this award while meeting their production requirements.

Upon completing my discussions with Ms. Collingsworth and incorporating her information into my exit briefing, an exit briefing was held with Grantee staff to outline the results of the monitoring visit. **THIS VISIT DID NOT IDENTIFY ANY FINDINGS OR CONCERNS.** It appears that the Grantee is on track to complete full expenditure of the award and achieve production for the required number of units.

## **PROGRAMMATIC & MANAGEMENT: REVIEW**

### **REVIEW OF PREVIOUS MONITORING ASSESSMENTS AND VERIFICATION OF IMPLEMENTATION OF CORRECTIVE ACTIONS**

*No findings, concerns, or recommendations were previously identified. It should be noted that previous findings and concerns have been resolved.*

## **PROGRAMMATIC & MANAGEMENT CHECKLIST: ASSESSMENT REVIEW**

### **COMMENDATIONS AND BEST PRACTICES:**

*The grantee is commended for incorporating in their training the requirements outlined in Weatherization Program Notice 12-9. The review of audits done for the sub-grantee visited during this trip indicate that this process is being used to associate Incidental Repair costs with Energy Conservation Measures and that those measures which are identified for installation continue to rank in the audit with an SIR of one or greater.*

### **GRANTEE REVIEW:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **WAGE DETERMINATIONS AND PAYROLL:**

*Section was not reviewed during this visit.*

### **FINANCIAL/ADMINISTRATIVE :**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit. A more thorough review of the Grantee's financial management procedures falls under the purview of the Golden Field Office, the contracting office for DOE's WAP. The Contracting Office is responsible for monitoring the DOE Weatherization Grantee for financial compliance against Federal regulations and Grantee's policies and procedures. This report will be shared with the appropriate GFO personnel and a follow-up financial review may be conducted by GFO procurement personnel.*

### **EQUIPMENT/INVENTORY/MATERIALS:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **ELIGIBILITY:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **RENTAL:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

### **POLICY ADVISORY COUNCIL:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FEEDBACK AND REPORTING:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**ENERGY AUDITS:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FIELD WORK:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**HEALTH & SAFETY:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**GRANTEE MONITORING:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**TRAINING & TECHNICAL ASSISTANCE:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**SERC REGULATIONS:**

*Section was not reviewed during this visit. There is not a SERC component to this award.*

**SUBGRANTEE(S) CHECKLIST: ASSESSMENT REVIEW**

- Combined Community Action Agency

**PROGRAM OVERVIEW:**

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**FINANCIAL/ADMINISTRATION:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**INVENTORY:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**ENERGY AUDITS:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**QUALIFICATIONS & TRAINING:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**WEATHERIZATION OF UNITS:**

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*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**HEALTH & SAFETY:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**QUALITY MANAGEMENT ASSURANCE:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit.*

**SERC OVERVIEW:**

---

*Section was reviewed and no findings, concerns or recommendations were identified during the visit. - There is not a SERC component to this award.*

**TECHNICAL ASSISTANCE:**

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*Technical Assistance was provided with some components of the ASHRAE 2010 protocols. The Grantee has been provided with information from the Project Officer which is designed to allow the sub-grantee agencies to better document and perform this very important function of the program.*

**CLOSING:**

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I would like to extend my thanks and appreciation to Grantee staff and the sub-grantee agency staff who were extremely cordial and provided all requested information and documentation promptly. I am aware that Grantee staff is presently involved in legislative review of their programs and wish to once again express my gratitude to them for modifying their schedules to accommodate my requests for information and review during this visit.

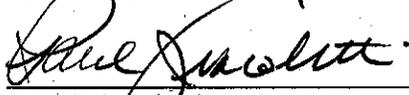
**CERTIFICATION:**

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I have conducted this monitoring visit in accordance with DOE standard procedures using the appropriate monitoring checklists for the purpose of forming an opinion on the general administration of your Weatherization grants.

This is not an audit, and therefore all areas examined were only examined for purposes of obtaining an assessment of compliance with program requirements.

Report Prepared by:



Paul Jiacoletti  
Project Officer

02/21/2013

Date

5d

January 24, 2013

Timothy Irvine  
 Texas Department of Housing and Community Affairs  
 221 East 11<sup>th</sup> Street  
 Austin, TX 78701

Dear Timothy Irvine,

NeighborWorks® America would like to thank you for your response to its Quality Control and Compliance Review for Rounds 4 and 5 conducted by Mayer Hoffman McCann P.C. (MHM) on behalf of the National Foreclosure Mitigation Counseling (NFMC) Program. As a **direct grantee**, your organization is responsible for compliance with the terms and conditions of the NFMC program and must ensure its sub-grantees, branches and/or affiliates, if applicable, are also in compliance. **This will be your final NFMC letter for the Quality Control and Compliance Review for Rounds 4 and 5.** Final Rounds 4 and 5 disbursement(s) will be released shortly. NFMC staff has reviewed your response and determined the following:

**Your Finding(s) have been cured based on the documented evidence provided in your response; however, one or more of your agency's sub-grantees, branches, and/or affiliates has Finding(s) requiring a resolution. The Findings requiring de-obligation are from Austin Habitat for Humanity's ineligible Round 5 clients that were found to be a conflict of interest. The nine files listed below, are the client files from the Round 4 and 5 Compliance Review. The de-obligation amount for the rest of the ineligible client files is detailed on the next page.**

**As a direct grantee, you will be responsible for reimbursing the NFMC program for the following client files from your sub-grantee(s), branches, and/or affiliates:**

Level of counseling	Value of Counseling Level	# of R. 4 files with uncured Findings	# of R. 5 files with uncured Findings	Subtotal of client file Findings	Program Related Support (20%)	Operational Oversight, if applicable (7%)	Total
Level 1	\$150		4	\$600	\$120	\$42	\$762
Level 2	\$300		5	\$1,500	\$300	\$105	\$1,905
Level 4a	\$300			\$0	\$0	\$0	\$0
Level 4a	\$150			\$0	\$0	\$0	\$0
							<b>\$2,667</b>

The total due will be **de-obligated** from your organization's Round 4 and/or 5 Grant Award. If the amount due exceeds the available balance of the grant award NFMC will **recapture** funding and will require your agency to remit the recaptured amount.

In addition to the above amount, Texas Department of Housing and Community Affairs will have a further de-obligation of \$5,524.50 for twenty (20) additional Round 5 client files that were ineligible because Austin Habitat for Humanity was the original owner of the clients' loans. This violates NFMF's conflict of interest policy that states "staff and volunteers who provide foreclosure intervention counseling under NFMF shall have no conflict(s) of interest due to relationships with servicers, real estate agencies, mortgage lenders, and/or other entities (including itself) that may stand to benefit from particular counseling outcomes" (Round 5 Funding Announcement, pg. 21).

Level of counseling	Value of Counseling Level	# of R. 5 ineligible files uploaded	Subtotal of client file Findings	Program Related Support (20%)	Operational Oversight, if applicable (7%)	Total
Level 1	\$150	11	\$1,650	\$330	\$115.50	\$2,095.50
Level 2	\$300	9	\$2,700	\$540	\$189	\$3,429
						\$5,524.50
						Plus \$2,667 compliance findings
						<b>\$8,191.50</b>

Please see the attached letters for details regarding the results of the NFMF Rounds 4 and 5 compliance testing for your sub-grantees, branches and/or affiliates. The following information details the results of the NFMF Rounds 4 and 5 compliance testing for your agency:

**Programmatic Findings**

**Finding 1:** **CURED:** The documented evidence submitted met the requirements as stated in the NFMF Grant Agreement and/or Funding Announcement. **Original Finding:**

**Insurance Policy:** We noted during our review that your agency's insurance policy did not cover the period of the Round 4 and Round 5 Grant Agreement. "Grantee shall obtain fidelity bond coverage or honesty insurance in an amount that is at least equal to the lesser of (a) its grant funds awarded or (b) \$100,000. For all such fidelity bond coverage or honesty insurance, NeighborWorks America should be named as an additional insured. State Housing Finance Agencies only may request a waiver from this provision, provided they issue a statement in writing that they have comparable insurance covering acts of their employees." *(This requirement can be found in the*

Thank you for your participation in the NFMF Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMF to provide a WebEx or other instructional material regarding NFMF Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Round 4 & 5 Standard Compliance Reviews".

Thank you for your time and consideration.

Sincerely,

*Tonya Sims*

Tonya Sims

Senior Program Manager, National Foreclosure Mitigation Counseling Program

Attachment: Client File Findings worksheet

## NeighborWorks America

1325 G Street, N.W. ▶ Suite 800 ▶ Washington, DC 20005 ▶ 202.220.2300 ▶ [nw.org](http://nw.org)

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March 29, 2013

Timothy Irvine  
Texas Department of Housing and Community Affairs  
221 East 11<sup>th</sup> Street  
Austin, TX 78701

Dear Timothy Irvine,

NeighborWorks® America would like to thank you for your response to its Quality Control and Compliance Review for Rounds 4 and 5 conducted by Mayer Hoffman McCann P.C. (MHM) on behalf of the National Foreclosure Mitigation Counseling (NFMC) Program as well as for your cooperation with all of the follow-up communications with NFMC staff.

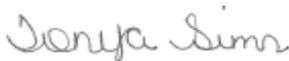
In addition to the \$8,191.50 that was already de-obligated on January 24, 2013 (see letter dated January 24, 2013) Texas Department of Housing and Community Affairs must reimburse NFMC for the removal of the ineligible records as listed in the final letter from the Standard Compliance Review for Round 4 and 5 (a copy is attached for your reference). **NFMC funds can't be used to pay for ineligible records.**

Please make your payment of **\$2,825** payable to NeighborWorks America and send to the following no later than **April 5, 2013**:

NeighborWorks America  
Attn: Tonya Sims, Director Quality Control and Compliance  
NFMC – Quality Control and Compliance  
1325 G. Street  
Washington, DC 20005

Thank you for your participation in the NFMC Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMC to provide a WebEx or other instructional material regarding NFMC Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Quality Control & Compliance".

Sincerely,



Tonya Sims, Director  
NFMC Quality Control and Compliance



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

Rick Perry  
GOVERNOR

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

April 11, 2013

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

Kelly Weiss  
Executive Director  
Austin Habitat for Humanity  
310 Comal Street, Suite 100  
Austin, Texas 78702

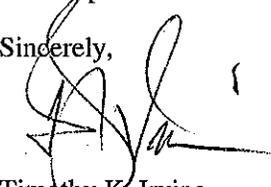
RE: NFMCC Round 5 Audit Finding Closed

Dear Ms. Weiss:

I am pleased to inform you that the audit finding for a conflict of interest during an NFMCC Round 4 & 5 Compliance Review of Austin Habitat for Humanity (see letter dated January 14, 2013) has been closed. The Texas Department of Housing and Community Affairs (TDHCA) has received \$8,191.50 and \$2,875.00 from Austin Habitat for Humanity for ineligible costs and processing for the removal of the ineligible records, respectively. TDHCA has received confirmation from NeighborWorks America that it has accepted the funds and is satisfied with the corrections made as a result of the audit finding.

If you have any questions or concerns regarding this issue, please contact me or Eric Pike at (512) 475-3356.

Sincerely,

  
Timothy K. Irvine  
Executive Director

cc: David Long, President, Texas State Affordable Housing Corporation  
Eric Pike, Director, Texas Homeownership Division, Texas Department of Housing and Community Affairs  
Elizabeth Yevich, Director, Housing Resource Center, Texas Department of Housing and Community Affairs

5e



**Department of Energy**  
Washington, DC 20585

April 18, 2013

Michael DeYoung, Director  
Community Affairs Division  
Texas Department of Housing  
and Community Affairs  
221 East 11<sup>th</sup> Street  
PO Box 13941  
Austin, TX 78711-3941

RE: Examination Report on "Travis County Health & Human Services and Veterans Services – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

Dear Mr. DeYoung:

Enclosed is a copy of the subject examination report. The Office of Inspector General contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on Travis County Health & Human Services and Veterans Services' (Travis County) compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Assistance Program (Weatherization Program). Travis County is a sub-recipient of the Department of Energy's American Recovery and Reinvestment Act of 2009 Weatherization Program funding for the State of Texas. Lani Eko expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period of April 1, 2009 through June 30, 2011.

However, the examination found that Travis County had not:

- Ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.
- Properly supported 33 of 45 client transactions reviewed. Lani Eko found that signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

The report makes recommendations to Travis County to improve the administration of its Weatherization Program. Travis County provided responses that expressed agreement with the

recommendation regarding eligibility and provided planned actions to address the issues identified. Travis County disagreed that the cost documentation did not denote proper approvals, but acknowledged that while the cost documents were not in the file at the time of the examination, the original documents were maintained in the Finance Department available for review. Lani Eko acknowledged receipt of cost documents signed by the appropriate approving officials subsequent to the examination and credited Travis County for this action.

We thank you and members of your staff for your cooperation during the examination.

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

Enclosure

cc: Sharon Gamble, Project Manager, Planning, Community Affairs Division



U.S. Department of Energy  
Office of Inspector General  
Office of Audits and Inspections

# Examination Report

Travis County Health & Human  
Services and Veterans Services –  
Weatherization Assistance Program  
Funds Provided by the American  
Recovery and Reinvestment Act of  
2009



OAS-RA-13-18

April 2013



**Department of Energy**  
Washington, DC 20585

April 18, 2013

**MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND  
RENEWABLE ENERGY**

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

**FROM:** Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

**SUBJECT:** INFORMATION: Examination Report on "Travis County Health & Human Services and Veterans Services – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"

**BACKGROUND**

The attached report presents the results of an examination of the Travis County Health & Human Services and Veterans Services (Travis County) Weatherization Assistance Program (Weatherization Program) provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of Inspector General (OIG) contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on Travis County's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. Travis County is a sub-recipient of the Department of Energy's (Department) Recovery Act Weatherization Program funding for the State of Texas.

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Program received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Texas received \$327 million in Weatherization Program Recovery Act grant funding, of which \$8.9 million was allocated to Travis County to weatherize approximately 1,060 homes. The State of Texas' Department of Housing and Community Affairs (State) was responsible for administering Weatherization Program grants, including funds provided to Travis County.

**OBSERVATIONS AND CONCLUSIONS**

Lani Eko expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period of April 1, 2009 through June 30, 2011.

However, the examination found that Travis County had not:

- Ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.
- Properly supported 33 of 45 client transactions reviewed. Lani Eko found that signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

The report makes recommendations to Travis County to improve the administration of its Weatherization Program. Travis County provided responses that expressed agreement with the recommendation regarding eligibility and provided planned actions to address the issues identified. Travis County disagreed that the cost documentation did not denote proper approvals, but acknowledged that while the cost documents were not in the file at the time of the audit, the original documents were maintained in the Finance Department available for review. Lani Eko acknowledged receipt of cost documents signed by the appropriate approving officials subsequent to the examination and credited Travis County for this action.

#### RECOMMENDATION

We recommend the Assistant Secretary for Energy Efficiency and Renewable Energy ensure appropriate action is taken by the State of Texas to improve administration of Recovery Act Weatherization Program funds at Travis County Health & Human Services and Veterans Services.

#### MANAGEMENT COMMENTS AND AUDITOR RESPONSE

The Department concurred with the recommendation outlined in the report. The Department's Weatherization Assistance Program Project Officer participates in weekly calls with the State of Texas, and receives weekly production reports for all subgrantees. The Department noted the State had enhanced its monitoring review to ensure that subgrantee files contain appropriate documentation. Based on an earlier review performed by the Department, the Project Officer recommended to the State that Travis County develop a corrective action plan and that all reimbursement costs are reviewed. The Project Officer will verify the State's monitoring approach and that all corrective actions were implemented during an on-site visit scheduled for August 2013. The Department's comments are included in their entirety in Attachment 2.

The State concurred with the Travis County recommendations and will continue to work with Travis County to mitigate the risk that Federal funds are expended on ineligible units. Further, the State will review documentation to ensure it is properly approved. The State noted, however, that due to separation of duties, approved documentation is retained in the Finance Office, which

is separate from the Housing Office at Travis County. The State found it troubling that the auditor did not include a visit to the Finance Office to review the documentation. The State's comments are included in their entirety in Attachment 3.

The comments provided by the Department and the State were responsive to the recommendations. Regarding the State's concern about lack of auditor review of available documentation, we noted that although Travis County indicated in its written comments to the draft examination report that the documentation had been available for Lani Eko's review. During the examination, Travis County did not inform Lani Eko that the documentation existed and was maintained separately in the Finance Office.

#### EXAMINATION-LEVEL ATTESTATION

Lani Eko conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants as well as those additional standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The examination-level procedures included gaining an understanding of Travis County's policies and procedures, and reviewing applicable Weatherization Program documentation. The procedures also included an analysis of inspection results, records of corrective actions and re-inspections of completed homes/units to ensure any failures were properly corrected. Finally, an analysis of associated cost data was performed to test the appropriateness of payments.

The Office of Inspector General monitored the progress of the examination and reviewed the report and related documentation. Our review disclosed no instances in which Lani Eko did not comply, in all material respects with the attestation requirements. Lani Eko is responsible for the attached report dated August 25, 2011, and the conclusions expressed in the report.

Attachments

cc: Deputy Secretary  
Acting Under Secretary of Energy  
Chief of Staff

**EXAMINATION REPORT OF  
TRAVIS COUNTY HEALTH &  
HUMAN SERVICES AND  
VETERANS SERVICES -  
WEATHERIZATION  
ASSISTANCE PROGRAM  
FUNDS PROVIDED BY THE  
AMERICAN RECOVERY AND  
REINVESTMENT ACT OF 2009**

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Lani Eko & Company, CPAs, PLLC

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**LANI EKO & COMPANY, CPAs, PLLC**  
110 S. Union Street, Suite 301  
Alexandria, VA 22314

Phone: (703) 647-7444  
Fax: (866) 665-7269  
www.laniekocpas.com

## Independent Accountant's Report

To the Inspector General, U.S. Department of Energy:

We have examined the American Recovery and Reinvestment Act of 2009 (Recovery Act), Weatherization Assistance Program (Weatherization Program) funds awarded by the State of Texas to the Travis County Health & Human Services and Veterans Services (Travis County) for the period April 1, 2009 through June 30, 2011. Travis County is responsible for operating the Weatherization Program in compliance with applicable Federal and state laws, regulations and program guidelines. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the U.S. Government Accountability Office; and, accordingly, included examining, on a test basis, evidence supporting management's compliance with relevant Weatherization Program Federal and state laws, regulations, and program guidelines, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure or financial management system, noncompliance due to error or fraud may occur and not be detected. In addition, projections of any evaluation of compliance to future periods are subject to the risk that the internal control structure or financial management system may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, except for the weaknesses described in Section IV of this report, Travis County complied, in all material respects, with the aforementioned requirements and guidelines relative to Weatherization Program funds awarded to Travis County for the period April 1, 2009 through June 30, 2011.

*Lani Eko & Company, CPAs, PLLC*

August 25, 2011  
Alexandria, Virginia

**SECTION I. Description of Travis County Health & Human Services and Veterans Services Weatherization Assistance Program**

The U.S. Department of Energy awarded \$326,975,732 to the State of Texas to allocate among its network of 44 local governments and nonprofit organizations participating in the Weatherization Assistance Program (Weatherization Program). From this award, \$8,922,699 was allocated to Travis County Health & Human Services and Veterans Services (Travis County) to assist with the costs of weatherizing approximately 1,060 homes. The Texas Department of Housing and Community Affairs (Texas) administers the Weatherization Program.

Travis County collaborates with Texas to operate the Weatherization Program. In accordance with the terms of this agreement, Travis County is responsible for determining applicant eligibility and taking the necessary steps to weatherize the applicant's home. These steps include procurement of contractor services as well as conducting home assessments and inspections.

The Weatherization Program helps eligible low-income households lower their energy costs by increasing energy efficiency. Energy conservation and efficiency methods utilized by the Weatherization Program include measures that reduce energy consumption and the cost of maintenance for weatherized homes. In addition to the material improvements, energy conservation education is provided to participants. For the period from April 1, 2009 through June 30, 2011, Travis County reported that it had completed weatherization of 876 units under the Weatherization Program.

## **SECTION II. Classification of Findings**

The findings in this report are classified as follows:

### **Significant Deficiency**

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects Travis County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

### **Advisory Comment**

An advisory comment represents a control deficiency that is not significant enough to adversely affect Travis County's ability to record, process, summarize, and report data reliably. The advisory comment presented represents matter that came to our attention during the course of the review, and is offered to Travis County's management as an opportunity for improvement. The advisory comment is provided along with suggestions and discussion of the significance of the comments.

**SECTION III. Summary of Findings**

1. Eligibility for Weatherization Services Under the Recovery Act – Significant Deficiency
2. Weatherization Cost Support and Approval – Advisory Comment

**SECTION IV. Schedule of Findings****Finding 1. Eligibility for Weatherization Services Under the Recovery Act – Significant Deficiency****Condition**

Travis County had not ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed. A dwelling unit is considered "designated for acquisition or clearance" if it becomes subject to imminent domain or foreclosure proceedings. The Texas Weatherization Field Guide and the Texas Weatherization Grant Agreement, consistent with the Federal requirements, define an eligible applicant for the Weatherization Program as an applicant whose unit was not designated for acquisition or clearance by a Federal, state, or local program within 12 months from the date of weatherization. Section 5 of the Texas Grant Agreement states, "...Department is not liable for any cost incurred by Sub-recipient which is incurred to weatherize a dwelling unit which is designated for acquisition or clearance by a federal, state, or local program within twelve months from the date weatherization of the dwelling unit is scheduled to be completed."

**Cause**

Travis County personnel tasked with the administration of the Weatherization Program were not aware of the Federal and state requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed.

**Effect**

There is an increased risk that Travis County may have improperly provided weatherization services to ineligible applicants and dwelling units, thereby, reducing the amount of Recovery Act funds available for eligible applicants and dwelling units.

**Recommendation**

We recommend that Travis County:

- 1.1 Include in its application procedures specific inquiries to determine whether the homeowner is aware of any potential Federal, state or local program's designation of their home for acquisition or clearance.

**SECTION IV. Schedule of Findings (Cont.)**

**Management Response**

Travis County concurs with the recommendation, and will include the following in its application procedures effective February 1, 2013:

"The landlord, home owner, or property owner certifies that, to the best of their knowledge, the dwelling unit to be weatherized is not designated for acquisition or clearance by a Federal, State, or local program within 12 months from the date of completion of weatherization of the dwelling unit."

**Auditor Response**

Management's comments and actions taken are responsive to our finding.

**SECTION IV. Schedule of Findings (Cont.)****Finding 2. Weatherization Cost Support and Approval – Advisory Comment****Condition**

In our review of documents supporting weatherization cost transactions, we found numerous instances in which cost approvals were not consistently documented. Supporting documentation is required to demonstrate that the Recovery Act costs are allowable, authorized and approved. In accordance with Federal guidelines, Travis County's weatherization agreement requires Recovery Act supporting documentation be signed and dated by authorized approving officials. We noted, in 33 client files out of the 45 we reviewed, signatures that denoted authorization and/or approval of weatherization services were missing. Two additional client files were missing key documentation such as invoices or final inspection reports.

**Cause**

Travis County attributed documentation deficiencies to its de-centralized operations, and added that the client files we reviewed may not have contained the final version of procurement documents that reflected all levels of approval. Travis County officials stated the agency's financial system could not process the procurement documents without purchase order number generated by the Finance Division, thus the approval was tacitly obtained.

Subsequent to our identification of deficient cost support, Travis County provided documentation, which contained previously omitted signatures of Housing Services staff and Program Manager, the Finance Manager (or designee) and the County Executive. Additionally, Travis County's Procurement Division requires the Labor Standards Officer (LSO) to certify weatherization invoices for appropriateness, completeness and Davis-Bacon Act compliance prior to submission to the County Auditor for payment processing. The LSO's signature is evidence of the weatherization vendor's compliance with contract requirements.

**Effect**

As a result of the lack of proper documentation and approvals, the risk that errors and irregularities could occur and not be detected in a timely manner is increased.

**Recommendation**

We recommend that Travis County:

- 2.1 Review weatherization cost support in detail to ensure that documentation meets the procurement guidelines of the Weatherization Program, and are properly approved by authorized officials.

**SECTION IV. Schedule of Findings (Cont.)**

**Management Response**

Travis County did not concur with the finding; however, it acknowledged that the cost support documents were not in the files at the time of the audit. Travis County stated that the Finance Department maintains the final original copy of these documents, which were available for review during the examination. Finally, authorized Travis County officials approved and signed all required procurement documents. Documentation submitted to and received by the independent accountant supports these statements.

**Auditor Response**

We acknowledge receipt of cost documents signed by the appropriate approving officials subsequent to our examination and have credited Travis County for this action.

**SECTION V. Management Response**



**TRAVIS COUNTY HEALTH and HUMAN SERVICES  
and VETERANS SERVICE**  
502 E. Highland Mall Blvd.  
P. O. Box 1748  
Austin, Texas 78767

**Sherri E. Fleming**  
County Executive for HHS/VS  
(512) 854-4100  
Fax (512) 279-1608

January 18, 2013

Shona Mollison  
Lani Eko & Company, CPAs, PLLC  
110 S. Union Street, Suite 301  
Alexandria, VA 22314

Ms. Mollison,

Attached is our response to the finding and advisory comment prepared by your firm in regard to an audit of the Travis County Health and Human Services and Veterans Service ARRA grant for the period of April 1, 2009 through June 30, 2011.

Sincerely,

A handwritten signature in cursive script that reads "Sherri E. Fleming".

Sherri E. Fleming  
County Executive for Health and Human Services  
And Veterans Service

**SECTION V. Management Response (Cont.)**



**Section IV. Schedule of Findings**

**Finding 1. Eligibility for Weatherization Services Under the Recovery Act-  
Significant Deficiency**

**Recommendation:**

We recommend that Travis County:

- 1.1 Include in its application procedures specific inquiries to determine whether the homeowner is aware of any potential Federal, state or local program's designation of their home for acquisition or clearance.

**Management Response**

Travis County Health and Human Services and Veterans Service Department is in concurrence with the recommendation, and will include the following in its application procedures effective February 1, 2013:

"The landlord, homeowner, or property owner certifies that, to the best of their knowledge, the dwelling unit to be weatherized is not designated for acquisition or clearance by a Federal, State, or local program within 12 months from the date of completion of weatherization of the dwelling unit."

**Finding 2. Weatherization Cost Support and Approval – Advisory Comment**

**Recommendation**

We recommend that Travis County

- 2.1 Review weatherization cost support in detail to ensure that documentation meets the procurement guidelines of the Weatherization Program, and are properly approved by authorized officials.

**SECTION V. Management Response (Cont.)**

**Management Response**

Travis County Health and Human Services and Veterans Service Department does not concur.

All procurement guidelines of the weatherization program were followed and properly approved by authorized officials. We do acknowledge that the signed hard-copy procurement (ATP's) documents were not in the files at the time of the audit. The final original copies of these documents were maintained by the Finance department and were available for review during the audit. Finally, all required procurement documents were approved and signed by authorized Travis County officials. These statements are supported by documentation that has been submitted to and received by Lani Eko & Company.

**DEPARTMENT COMMENTS****Department of Energy**

Washington, DC 20585

March 22, 2013

MEMORANDUM FOR: RICKEY R. HASS  
DEPUTY INSPECTOR GENERAL  
FOR AUDITS AND INSPECTIONS  
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN   
DEPUTY ASSISTANT SECRETARY  
FOR ENERGY EFFICIENCY  
ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to Office of Inspector General Draft Examination Report on  
"Travis County Health & Human Services and Veterans Services –  
Weatherization Assistance Program Funds Provided by the American  
Recovery and Reinvestment Act of 2009"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and make comments related to the Office of Inspector General's (OIG) March 2013 draft Examination Report for Travis County Health & Human Services and Veterans Services a Subgrantee of the Texas Weatherization Assistance Program (WAP). EERE provides guidance and support to all grantees pursuant to Code of Federal Regulations (CFR), 10 CFR 600 and 2 CFR 225 (A-87). Also, when applicable, EERE will provide grantees with guidance pursuant to 2 CFR 220 (A-21), 2 CFR 230 (A-122) and 10 CFR 400. EERE seeks to ensure compliance with Federal regulations through ongoing monitoring and communications with grantees.

The independent auditor expressed the opinion that, except for the weaknesses described in its report, Travis County complied in all material respects with the requirements and guidelines relative to the Weatherization Program for the period April 1, 2009 through June 30, 2011. EERE concurs with the OIG's recommendation and has been working with the State of Texas WAP to ensure that corrective actions are implemented. The following response by EERE addresses the OIG finding as outlined in the draft examination report:

*OIG Recommendation 1: Ensure appropriate action is taken by the State of Texas to improve administration of Recovery Act Weatherization Program funds at Travis County Health & Human Services and Veterans Services.*

EERE Response: The state of Texas has enhanced their monitoring review to ensure that Subgrantee files contain appropriate documentation of internal controls. It should be noted that the WAP Project Officer (PO) participates in weekly calls with the Grantee and has been



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routinely informed of the progress being made in Travis County and the improvements being implemented by the State Office. The PO also receives weekly production reports for all sub-grantees and uses this tool to monitor production effort and identify problems with particular agencies like Travis County.

In February 2012, an on-site visit to the state WAP office was conducted by the PO to determine whether the required changes and improvements had been implemented by the sub-grantee; Travis County was included in the portfolio of subgrantees reviewed in the field at that time. The PO determined that the progress was incomplete and recommended to the Grantee that Travis County have a Corrective Action Plan developed and that all reimbursement costs be subject to additional review. EERE will verify the Texas' monitoring approach and that all corrective actions were fully implemented during the next on-site visit scheduled for August 2013.

**STATE OF TEXAS COMMENTS**



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

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

Rick Perry  
GOVERNOR

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J. Mark McWatters

April 2, 2013

*Writer's direct phone # 512/475-2125  
Email: michael.deyoung@tdhca.state.tx.us*

Mr. Jack Rouch  
Director Central Audits Division  
Office of Inspector General  
Department of Energy  
Washington, DC 20585

Dear Mr. Rouch:

The Department is responding to your request for review and Comment of the draft report for Travis County Health and Human Services and the administration of the American Recovery and Reinvestment Act (ARRA) Weatherization Assistance Program (WAP) report compiled by Lani Eko & Company, CPAs PLLC.

The Department has reviewed the draft report and submits the following comments:

**Finding #1 – Eligibility for Weatherization Services under the Recovery Act - Significant Deficiency**

The Department concurs with the recommendation that Travis County include an inquiry at the time of the client's application in an effort to mitigate the risk of federal funds being expended on ineligible dwelling units. The Department will follow up to ensure that the proposed mitigation is in effect at the time of the next monitoring of Travis County.

**Finding #2 – Weatherization Cost Support and Approval – Advisory Comment**

The Department concurs with the recommendation to review the WAP support documentation to ensure the proper approval is received and documented. The department responsible for the approval and retention of the documentation is separate from the Housing office at Travis County. This separation of duties is considered a "best practice" and supports the internal control structure. If the documents were available for review at the time of the monitoring, it is troublesome that the efforts of the auditor did not include a visit to the Finance Department to review the documents.



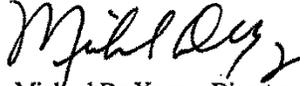
Office of Inspector General – Travis County  
April 2, 2013  
Page 2

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The Department appreciates the opportunity to respond to the identified issues and appreciates the efforts of DOE and the OIG to improve the implementation of the WAP program in the State of Texas.

If you have additional questions or need clarification please contact me at 512/475-2125.

Respectfully,



Michael De Young, Director  
Community Affairs Division

mdy

cc: Sandy Donoho  
Brooke Boston

5f



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

April 26, 2013

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

**RECEIVED**

**MAY 13 2013**

**TDHCA SECTION 8**

Dear Ms. Hurd:

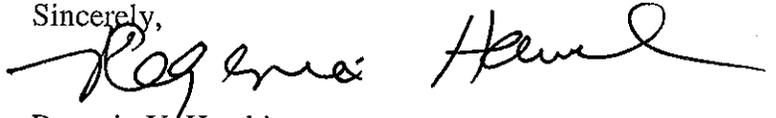
Congratulations on your Section Eight Management Assessment Program (SEMAP) rating as a High Performer. We appreciate your time and attention to the SEMAP assessment process. The SEMAP is designed to:

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

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

Public Housing Information (PIC) System: Louis Bell 817-978-5693  
Management/Administration of Section 8: Ethel Montague 817-978-5717  
SEMAP Process: Regina Jones 817-978-5706

Sincerely,

A handwritten signature in black ink, appearing to read "Regenia Y. Hawkins". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Regenia Y. Hawkins  
Director  
Office of Public Housing

Enclosure

The **TDHCA** final SEMAP score for the fiscal year ended **12/31/2012** is **100**. The following are your scores on each indicator:

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

5g

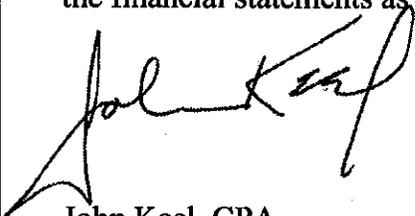
## Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. Lowell A. Keig  
Mr. J. Mark McWatters

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2012, and have issued our report thereon dated December 20, 2012, which contained an unqualified opinion on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying Federal Data Schedule is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Affairs, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule is fairly stated in all material respects in relation to the financial statements as a whole.



John Keel, CPA  
State Auditor

June 26, 2013

COPY

5h

July 12, 2013

Mr. Timothy Irvine  
221 East 11th Street  
Austin, TX 78701

Dear Mr. Irvine,

The National Foreclosure Mitigation Counseling (NFMC) program would like to thank you for your response to the Round 6 Random Review and subsequent appeals process. As a recipient of NFMC funding, your organization as well as sub-grantees, branches, and/or affiliate offices are subject to site visits, file audits, and other measures to ensure program compliance.

NFMC conducted a remote review of requested client files for your organization. Your organization was required to respond to the request with documented evidence demonstrating compliance with NFMC Program guidelines. NFMC staff has reviewed your response and the documents provided as part of the appeals process, and determined the following:

**Your organization cured all Findings; all required documented evidence was submitted. No further action is required.**

Thank you for your participation in the NFMC Program. We appreciate all of the work you do for foreclosure counseling and education. If you have questions regarding Quality Control and Compliance or would like NFMC to provide a web-ex or other instructional material regarding NFMC Quality Control and Compliance, please contact us at [nfmc@nw.org](mailto:nfmc@nw.org). The subject line should read "Quality Control and Compliance".

Thank you for your time and consideration.

Sincerely,



Tonya Sims  
Director, Quality Control and Compliance, National Foreclosure Mitigation Counseling Program



pcode:		5041	Organization Name:					Texas Department of Housing and Community Affairs			Organization Type:		Housing Finance Agency				
pcode	Branch ID	Client ID	Round	Counseling Level	Have All Required Documents?	Have all Service Related Documents?	Number of Missing Documents	All Levels			Level 1				Level 2		
								Did they have an Authorization Form	Did they have a Disclosure	Did they have a Privacy Statement	Intake	Action Plan	Budget	MHA Eligibility	Budget Verification	Steps Taken on the Action Plan	Close Out Documentation
5041	Main	111010	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5386282	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5423202	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	4693	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	104034	6	2	Yes	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5204	6	2	Yes	Yes	0	Cured	Cured	Cured	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5406179	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	2266	6	2	No	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	5410825	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5249640	6	1	Yes	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	1981924	6	2	No	Yes	0	Yes	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
5041	Main	325	6	1	Yes	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5390510	6	1	No	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	5388299	6	1	No	Yes	0	Cured	Cured	Cured	Yes	Yes	Yes	Yes	N/A	N/A	N/A
5041	Main	109097	6	1	No	Yes	0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A

**Client ID # 5406179, 5410825, 5249640, 5390510, 5388299**

**Authorization documents:** While we have received your updated authorization documents as well as the letters written to each client regarding the documents, we are still unable to verify that these documents have been sent. Please submit documentation such as postal receipts or email correspondences that verify that the documents have been sent to the clients listed above.

**Recommendation**

**Client ID # 5204 Signed Authorization:** In your Authorization form there is language that states NFMC program administrators and/or their agents are permitted to pull a client's credit report up to four additional times. Please remove this language from the Authorization forms you use for NFMC programs as NFMC does not request this right and does not pull clients' credit reports.

6

**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JULY 25, 2013**

Presentation and Discussion of the Status of Prior Audit Issues.

**REPORT ITEM**

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

**BACKGROUND**

Of the 35 current prior audit issues:

- 30 issues were recently reported by management as “implemented” and are reflected on the attached list. These will be verified and closed by internal audit once we have reviewed the supporting documentation. Of these:
  - 15 are for the Neighborhood Stabilization Program (NSP),
  - 5 are for the HOME Multifamily Program,
  - 4 are for the Financial Administration Division,
  - 4 are for the Homeless Housing and Services Program,
  - 2 are for the Community Affairs Division.
  
- 5 issues are “pending” and are reflected on the attached list. Internal audit will verify and close these issues once they are reported as “implemented.” Of these:
  - 3 are for the Multifamily Finance Division,
  - 1 is for the Neighborhood Stabilization Program (NSP), and
  - 1 is for the Compliance Division.

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

## ***Detailed Audit Findings***

***July 25, 2013***

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

***Division:*** Neighborhood Stabilization Program

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

***Current Status:*** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

**Recommendation:** NSP should:

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

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

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

**Actual Implementation Date:** 10/15/12

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

**Recommendation:** NSP should:

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

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

## ***Detailed Audit Findings***

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

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

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

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

**Actual Implementation Date:** N/A

**Recommendation Age (in days):** 244

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

The NSP SOPs were finalized on August 17, 2011.

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

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

**Target Implementation Date:** 03/31/12  
**Actual Implementation Date:** 03/20/12

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

We found that of the 18 inaccurately classified contracts:

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

**Recommendation:** NSP should:

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

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

**Division:** Neighborhood Stabilization Program

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

**Current Status:** Implemented – Not Verified

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

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

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

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

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

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the HOME Multifamily Program

**Division:** Multifamily Finance Division

**Report Date:** 05/16/2012

**Current Status:** Implemented – Not Verified

**Finding:** HOME Multifamily does not always process draws within five to ten business days as required by the HOME Performance Management Standard Operating Procedure. Five (14.3%) of the 35 judgmentally selected project draws and six (20.7%) of the 29 judgmentally selected CHDO operating draws were not processed within 10 business days. The longest processing time noted for these draws was 24 business days for project draws and 16 business days for CHDO operating draws.

**Recommendation:** The Department should ensure that draws are processed within the timeframe required by HOME Multifamily.

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

**Target Implementation Date:** 05/31/12

**Actual Implementation Date:** 05/31/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the HOME Multifamily Program

**Division:** Multifamily Finance Division

**Report Date:** 05/16/2012

**Current Status:** Implemented – Not Verified

**Finding:** The HOME Multifamily Standard Operating Procedures (SOP) for Application Intake and Award Process; Contract Generation; Setups, Disbursements, and Loan Closings; and Performance Management are not finalized as of January 27, 2012.

The Application Intake and Award Process; Contract Generation; Setups Disbursements, and Loan Closings; and Performance Management SOPs are not signed or dated.

Furthermore, the Application Intake and Award Process and Contract Generation SOPs do not have an effective date indicated and the Application Intake and Award Process additionally has comments and corrections throughout.

**Recommendation:** The Department Should finalize, sign, date and distribute the HOME Performance Management policies and procedures.

The Department should ensure that policies and procedures are finalized, signed and dated, and distributed to the Department's staff.

The Department should ensure that the HOME Multifamily policies and procedures are finalized, signed, dated and distributed to the Department's staff.

**Management Response:** Staff will also ensure that the appropriate processes for Performance Management will be finalized, signed and dated.

**Target Implementation Date:** 05/31/12

All existing HOME procedures are under review and management is committed to finalizing and signing SOPs by the end of May. All of the information contained in this audit will be considered as modifications are made to the SOPs.

**Actual Implementation Date:** 05/31/12

As stated above, existing HOME procedures are under review and management is committed to finalizing and signing SOPs by the end of May.

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the HOME Multifamily Program

**Division:** Multifamily Finance Division

**Report Date:** 05/16/2012

**Current Status:** Implemented – Not Verified

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

**Recommendation:** The Department should:

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

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

**Target Implementation Date:** 05/31/12

**Actual Implementation Date:** 04/16/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the HOME Multifamily Program

**Division:** Multifamily Finance Division

**Report Date:** 05/16/2012

**Current Status:** Implemented – Not Verified

**Finding:** There were two of eighteen contracts (13.3%) that had contract start and end dates in the Housing Contract System which did not agree with the effective dates and the termination dates of the executed contracts. One contract was listed in the Housing Contract System to start and end 6 days earlier than the executed contract, and one contract was listed to start and end 2 days later than the executed contract.

**Recommendation:** The Department should ensure that contract information is accurately entered into the Housing Contract System during contract setup.

**Management Response:** Management understands, and fully agrees with, the importance of accuracy of information input in the Housing Contract System. An additional step will be added to the current procedure to confirm the contract system data against the actual executed contract.

**Target Implementation Date:** 05/31/12

**Actual Implementation Date:** 05/31/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the HOME Multifamily Program

**Division:** Multifamily Finance Division

**Report Date:** 05/16/2012

**Current Status:** Implemented – Not Verified

**Finding:** HOME Multifamily is not always tracking contract amendments or maintaining supporting documentation for amendments. We judgmentally selected a sample of 15 amended contracts from an incomplete population of 37 amended contracts which were amended from September 1, 2010 to February 1, 2012. Amended contracts were sampled rather than individual amendments because the complete population of amendments for HOME Multifamily contracts could not be determined. We were unable to determine the complete population of amendments because this information has not been consistently tracked.

**Recommendation:** The Department should ensure that all amendments are tracked and the supporting documentation is maintained as required.

**Management Response:** The Multifamily Finance Division is currently building a pipeline management database in Microsoft Access to track and manage all multifamily programs. The amendments will be tracked in this new system, which is expected to be implemented in the fall. In the meantime, staff will track all multifamily Contract amendments in a spreadsheet. Additionally, documentation of the amendment request will be saved in the Division's electronic files.

**Target Implementation Date:** 05/31/12

**Actual Implementation Date:** 05/31/12

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

**Recommendation Age (in days):**

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

## **Detailed Audit Findings**

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

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

**Current Status:** Implemented –Not Verified

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

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

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

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

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

**Actual Implementation Date:** 12/31/11

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

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

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

## ***Detailed Audit Findings***

**Report Name:** DOE Financial Management and Administration Monitoring Report

**Division:** Community Affairs Division

**Report Date:** 3/1/2012

**Current Status:** Implemented – Not Verified

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

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

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

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

**Target Implementation Date:** 03/31/13

**Actual Implementation Date:** 7/24/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Homeless Housing and Services Program

**Division:** Community Affairs Division

**Report Date:** 8/17/2012

**Current Status:** Implemented – Not Verified

**Finding:** Funds for two (25.0%) of the eight subrecipients were not paid in accordance with their contracts.

**Recommendation:** The Department should ensure that draws comply with the subrecipient contracts prior to payment.

**Management Response:** The Department acknowledges the need to improve oversight of the draw management process. The Department is currently exploring the feasibility of adding expenditure limit validations into the contract system. These validations would not allow Subrecipients to request amounts over the maximum allowed by contract requirements.

**Target Implementation Date:** 09/15/12

**Actual Implementation Date:** 10/01/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Homeless Housing and Services Program

**Division:** Community Affairs Division

**Report Date:** 8/17/2012

**Current Status:** Implemented – Not Verified

**Finding:** The Department does not have a process in place to ensure subrecipients comply with the matching funds requirement outlined in the subrecipient contracts. For the eight subrecipients there were a total of 18 contract amendments that impacted the contract budget. Six (33.3%) of the 18 resulted in an increase in the final allocation, which meant that the matching funds requirements should have also increased. However, none of these six contract amendments included an increase to the matching funds required by the contracts.

**Recommendation:** The Department should develop a process to ensure that subrecipients comply with the matching funds requirement in their contract. The matching funds requirement should be adjusted when contract amendments are made which result in an increase in the final contract amount.

**Management Response:** The Department acknowledges that adjustments to the match requirements in the contracts were not sufficiently adjusted. Future HHSP contracts will not include a match requirement as the governing statute does not include language regarding match, as the original rider did. Staff assures that in the future contract requirements, for match or otherwise, will be more thoroughly tracked.

**Target Implementation Date:** 09/15/12

**Actual Implementation Date:** 10/01/12

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Homeless Housing and Services Program

**Division:** Community Affairs Division

**Report Date:** 8/17/2012

**Current Status:** Implemented – Not verified

**Finding:** There are 49 HHSP services in the subrecipient contracts which subrecipients agreed to provide to a targeted number of clients. The HHSP Monthly Performance Report tracks all performance metrics for 27 (55.1%) HHSP services, some but not all performance metrics for 19 (38.8%) HHSP services, and does not track any performance metrics for three (6.1%) HHSP services.

**Recommendation:** The Department should ensure that the performance metrics reported by the subrecipient accurately measure the subrecipients' progress towards meeting the goal outlined in their contracts.

**Management Response:** The Department acknowledges the need to improve oversight in this area. In future contracts, the Performance Measures exhibit to the contract will include items that more consistently reflect the metrics to be achieved, and monthly reporting will include submission relating to all contract measures. Further, the contracts will include benchmarks setting the rate at which Subrecipients must meet their performance targets; if not successfully achieved, deobligation will be considered. Finally, the Monthly Performance Report will track items that more consistently reflect the metrics included in the contract.

**Target Implementation Date:** 09/15/12

**Actual Implementation Date:** 10/01/12

The CAD Planning Section will review progress to meeting the benchmarks on a quarterly basis to ensure that benchmarks are adhered to. If review shows that a Subrecipient is consistently unable to satisfy contract requirements regarding benchmarks, the Subrecipient will be required to submit a plan of action to meet the benchmarks and follow through with that plan.

This effort to ensure metrics accurately measure progress toward goals outlined in their contracts is already underway and manifest in the HHSP rules. This will also be reflected in the final version of future HHSP contracts.

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

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

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

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Homeless Housing and Services Program

**Division:** Compliance Division

**Report Date:** 8/17/2012

**Current Status:** Implemented – Not Verified

**Finding:** The Department does not have effective monitoring procedures in place to predict, identify, and prevent weaknesses at the subrecipient level. The monitoring instrument does not capture information on many of the requirements in the subrecipients contracts. In addition, the Department has not monitored three of the eight subrecipients and the other five were monitored only once since 2010.

**Recommendation:** The Department should improve its monitoring procedures and periodically monitor all of the subrecipients to ensure compliance with their contracts.

**Management Response:** The Department's Compliance Division is responsible for monitoring the HHSP program. The Compliance Division understands that the Department has yet to formally adopt specific rules on the administration of the HHSP program. Currently, the Department has a general HHSP rule (Section 5.1003) that provides an overview of the intent of the program. The HHSP program is currently funded through GR, HTF and BMIR funds. The multiple sources of funds require the Compliance Division take into account specific requirements from each of the GR, BMIR and HTF funds. The Compliance Division intends on utilizing the BMIR requirements and HTF funding source requirements (in addition to Rule 5.1003), to develop a monitoring instrument that will ensure program funds are expended in accordance with the contract provisions and applicable State and Federal rules, regulations, policies, and related Statutes.

**Target Implementation Date:** 02/28/13

**Actual Implementation Date:** 04/15/13

The Compliance Division intends on completing the HHSP Monitoring Instrument by September 31, 2012 and intends on performing a desk monitoring or an on-site monitoring of all HHSP entities, between October 2012 and February 2013.

Until the Department is able to adopt the HHSP rules, the Compliance Division will utilize the monitoring instrument to determine the effectiveness of the subrecipient's performance and program compliance.

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

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

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

## ***Detailed Audit Findings***

**Report Name:** HUD-OIG NSP Report

**Division:** Neighborhood Stabilization Program

**Report Date:** 8/22/2012

**Current Status:** Pending

**Finding:** The Department did not always comply with Neighborhood Stabilization Program Requirements.

The Department did not adequately manage its NSP1 obligations by not maintaining sufficient records to support obligations reported to HUD. Federal regulations required the Department to establish and maintain sufficient records to support that it complied with requirements. Based on a review of a statistical sample of obligations, the Department did not have valid contracts or other obligating documentation for \$631,402 in reported obligations. Also, it entered into agreements with subrecipients that did not complete their activities, resulting in \$8,767 of unsupported costs. Further, more than \$24.7 million of its reported obligations did not match the subrecipient agreements. In addition, the Department did not report its progress to HUD in a timely manner as required and did not appear to be on track to spend funds by the statutory deadline. These conditions occurred because the Department did not allocate enough resources or establish the effective controls to operate its program. Therefore, the Department did not effectively and efficiently implement its planned program and incurred questioned obligations and costs totaling more than \$25 million.

**Recommendation:** (1G) Monitor the Department's progress toward meeting its March 2, 2013, expenditure deadline and follow up on any delays.

**Management Response:** No response indicated by management.

**Target Implementation Date:** 03/02/13

**Actual Implementation Date:** N/A

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

**Recommendation Age (in days):** 132

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

## ***Detailed Audit Findings***

**Report Name:** Comptroller Post Payment Audit

**Division:** Financial Administration

**Report Date:** 11/30/2012

**Current Status:** Implemented – Not Verified

**Finding:** The Comptroller identified three payroll transactions that were missing the documentation needed to determine whether the payments to the employees were made correctly. The Department obtained the verification documentation during the audit. The service dates matched the dates in USPS and resulted in no monetary impact to the employees' longevity payments. The Department stated that the documentation was missing due to oversight.

Agencies are required to maintain specific documentation to support the legality, propriety, and fiscal responsibility of each payment made out of the agency's funds. The Comptroller's office may require the documentation to be made available during a post-payment audit, a pre-payment audit, or at any other time.

**Recommendation:** The Department must ensure that prior state service is properly verified and documented for its employees. The Department should review all personnel files to ensure that properly completed prior state service verification documentation is properly documented in the employees' files.

**Management Response:** The Department has updated procedures to ensure that employees have the proper documentation in their files to support prior state service. Files pulled during the current audit where documentation was missing were from employees hired prior to the last audit and before the current procedures had been implemented. The Payroll and Human Resources areas with the Department are currently working together to review all personnel files to ensure that Prior State Service forms in files match the information in USPS

**Target Implementation Date:** 05/31/13

**Actual Implementation Date:** 05/10/13

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

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

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

## ***Detailed Audit Findings***

**Report Name:** Comptroller Post Payment Audit

**Division:** Financial Administration

**Report Date:** 11/30/2012

**Current Status:** Implemented – Not Verified

**Finding:** As part of our planning process for the post-payment audit, we reviewed certain limitations the Department placed on its accounting staff members' abilities to process expenditures. We reviewed the Department's security in USAS, USPS and TINS, and the voucher signature cards that were in effect during fieldwork. We did not review or test any internal or compensating controls that the Department may have relating to USAS/USPS/TINS security or internal transaction approvals.

The Department had one employee with security to adjust payee instructions in TINS and approve paper vouchers. To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to alter payments or other accounting transactions within the state governmental accounting systems without another person's involvement.

As a routine part of our security review, we reviewed the Department's compliance with the requirement that all agency users of the Comptroller's state government accounting systems must complete a CTIA form. For employees and contractors who require access to the Comptroller's state government accounting systems, the agency's security coordinators must have a signed CTIA form from every user on file at their agency prior to granting access to the systems. A reviewing official also must sign the agreement, which the agency's security coordinator keeps on file for as long as the user has access to the systems plus five years. The Department did not obtain a signed CTIA form for one employee prior to granting access to the systems. According to the Department, this was due to the oversight of the agency.

**Recommendation:** The Department should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight. In addition, the Department must enhance its controls to ensure the CTIA forms are completed in a timely manner.

**Management Response:** The Department acknowledges this isolated incident caused by a transition from a previous security coordinator to a newly trained staff member. This oversight allowed one employee with security to enter/update in TINS and approve payments in USAS. Since the finding, the Department has changed the TINS access to inquiry. In the future, management will periodically review the State Comptroller's Office Control Reports to confirm security status.

**Target Implementation Date:** 01/31/13

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

To improve controls related to CTIA forms, management will audit the master file to ensure all CTIA forms are accounted for.

***Texas Department of Housing and Community Affairs***  
***Detailed Audit Findings***

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

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

## ***Detailed Audit Findings***

**Report Name:** Comptroller Post Payment Audit

**Division:** Financial Administration

**Report Date:** 11/30/2012

**Current Status:** Implemented – Not Verified

**Finding:** Tex. Gov't Code Ann. Sec. 2155.382(d) (Vernon 2008) authorizes the Comptroller to allow or require state agencies to schedule payments that the Comptroller will make to a vendor. The Comptroller must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller must require advance scheduling of payments when it is advantageous to the state.

We identified seven travel transactions that the Department paid early resulting in interest loss to the state treasury. These transactions were paid early because the Department was unaware that travel cards and direct bill invoices that exceed \$5,000 must be scheduled

**Recommendation:** To minimize the loss of earned interest to the state treasury, the Department must schedule all payments that are greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described in the Comptroller's Prompt Payment and Scheduling Guide. The Department can pay according to the terms on the invoice only if those terms are included in the purchase agreement.

**Management Response:** Prior to this audit, the Department's practice for travel direct bill payments was payment upon receipt of statement or services rendered. Prompt payment laws for travel direct bill payments had not been communicated to staff nor identified as findings in prior audits. The Department will schedule all payments that are greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described in the Comptroller's Prompt Payment and Scheduling Guide.

**Target Implementation Date:** 01/31/13

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

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

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

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

## ***Detailed Audit Findings***

**Report Name:** Comptroller Post Payment Audit

**Division:** Financial Administration

**Report Date:** 11/30/2012

**Current Status:** Implemented – Not Verified

**Finding:** We identified one employee with an incorrect state effective service date in USPS. The improper date resulted in an incorrect payment of longevity pay to the employee. The employee had an underpayment of longevity pay totaling \$100.

This error occurred due to the employee not receiving state service credit for time spent on leave without pay status. The leave without pay period started in the middle of one month, continued for a full month, and ended in the middle of the third month. The Department recorded this break of service as two separate periods of employment. Because of this, the employee did not receive state service credit for the first and third months of this period.

Gov't Code sec.661.909(h) states, "A full or partial calendar month during which an employee is on leave without pay does not constitute a break in continuity of employment."

We provided the Department with the schedule and calculations of the incorrect payment amounts during the fieldwork. The schedule is not included with this report due to confidentiality.

**Recommendation:** The Department must ensure that prior state service is properly verified and documented for its employees. The Department must also compensate the employee who was underpaid longevity pay. The Department must ensure that its internal operating procedures include quality control measures that will detect an underpayment of compensation to a state employee. The Department shall promptly correct the underpayment through a supplemental payroll. See 34 Tex. Admin. Code Section 5.40(c)(2012).

**Management Response:** Employee noted in finding had prior state service information entered into the Uniform Statewide Payroll System (USPS) based on the interpretation of the form received. The information has been corrected and the employee has been compensated.

**Target Implementation Date:** 01/31/13

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

The Department will take extra measures (reviews) to ensure proper processing for longevity pay. When the Verification of Employment form for prior state service is received by the payroll division, if there is any question as the information on the form, payroll will verify with Human Resources in writing what the payroll department's interpretation of the information is and verify that HR agrees with that interpretation. The Department's internal operating procedures include quality control measures that detect underpayment(s) of longevity pay.

***Texas Department of Housing and Community Affairs***  
***Detailed Audit Findings***

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

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

## ***Detailed Audit Findings***

**Report Name:** HUD Technical Assistance and Monitoring Review

**Division:** Multifamily Finance Division

**Report Date:** 08/02/2012

**Current Status:** Pending

**Finding:** The Housing Authority of the City of Kingsville submitted a request for HOME funds in conjunction with a demolition application to HOD approved under section 18 of the of the U.S. Housing Act of J 937. Although these regulations eliminated the requirement for a Public Housing Authority to provide for one-for-one replacement of demolished units, no such exemption exists for the use of HOME funds. This project resulted in the net loss of 14 lower-income dwelling units in the community, since the reconstruction proposed six fewer 3-bedroom units and eight fewer 4-bedroom units.

The Heights at Corral project records continued no rent rolls, General Information Notices or written referrals to comparable replacement properties. Persons appear likely to have moved permanently to decent, safe, and sanitary units given the project was carried out by the Housing Authority of the City of Kingsville using Housing Choice Vouchers. However, no documentation was provided to evidence the displacing agency evaluated whether or not the voucher payment standard was sufficient to cover all rent and utility costs at the replacement unit beyond the out-of-pocket costs paid at the displacement site.

**Recommendation:** TDHCA must provide evidence the Housing Authority of the City of Kingsville made direct payment or reimbursement for all disconnection and reconnection of necessary utilities (i.e., water, sewer, gas, and electricity). Additionally, TDI-ICA must submit to 1-IUD an examination of each tenant's eligibility for a replacement housing "gap" payment. Gap payments are often made to a displaced subsidized tenant to defray the additional cost for rent/utilities associated with his/her move from a public housing unit to a Housing Choice Voucher unit TDHCA must make public and submit to HUD a one-for-one replacement plan for this project

Finally, TDHCA must submit to HUD its proposed procedures for implementing and monitoring section 104(d) compliance. Technical assistance may be provided upon request.

**Management Response:** TDHCA requested, on August 27, 2012 (attached as TDHCA Letter – August 27, 2012), from The Heights at Corral's development owner (hereinafter referred to as "The Heights"):

- Evidence that the Kingsville Housing Authority made direct payment or reimbursement for all disconnection and reconnection of necessary utilities.
- An examination of each tenant's eligibility for a replacement housing "gap" payment (payment made to a displaced subsidized tenant to defray the additional cost for rent/utilities associated with his/her move from a public housing unit to a Housing Choice Voucher unit).

**Target Implementation Date:** 01/31/13

**Actual Implementation Date:** N/A

TDHCA informed The Heights that they should use TDHCA's Relocation Budget Assistance Calculator to determine 1) if a tenant was eligible for a replacement housing "gap" payment, and 2) if the voucher

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

## ***Detailed Audit Findings***

payment standard was sufficient to cover all rent and utility costs at the replacement units beyond the out-of-pocket costs paid at the displacement site.

The Heights responded on September 17, 2012. Of the 57 tenants that occupied Brown Villa (to be known as The Heights at Corral after demolition and reconstruction), 36 tenants moved to privately managed properties, 6 moved to another public housing property, 11 tenants voluntarily vacated the property, and 4 tenants were either evicted or terminated for cause. TDHCA will require “The Heights” to submit documentation of the 11 “voluntary moves” and four evictions to determine if the 15 tenants were properly evaluated for eligibility or ineligibility to receive relocation assistance.

Regarding reimbursement for disconnection and reconnection of necessary utilities and moving expenses, The Heights provided the same documentation that they submitted in June 2012. Since they provided the same documentation from June in response to our September request for evidence that direct payment or reimbursement was made for disconnection and reconnection of necessary utilities, TDHCA determined the resubmission of the same documentation as unsatisfactory. TDHCA seeks further guidance from the HUD Relocation Specialist concerning the acceptable type of documentation required of The Heights to ensure full compliance is met.

Regarding examinations of each tenant’s eligibility for a replacement housing “gap” payment, The Heights submitted 20 TDHCA Relocation Assistance Budget Calculators (attached as 20- TDHCA Relocation Assistance Calculators). However, when compared to the supporting documentation, data contained on the forms did not match or was incomplete. To assure receipt of documentation that substantiates the appropriateness of tenant relocation payments, The Heights received instructions to resubmit a TDHCA Relocation Budget Assistance Calculator and attach verification of payments for each tenant. The Heights submitted 20 of the 36 TDHCA forms for tenants who received Housing Choice Vouchers. However, the Calculators were incorrectly completed as they entered the number of rooms in the Total Moving Expense cell instead of the dollar amount and did not contain the requested support documentation. With exception of the 6 tenants who moved to public housing (attached as Six PHA Leases, Security Deposit receipts and misc relocation receipts), TDHCA will require The Heights to resubmit corrected forms for all 36 tenants who moved to privately managed units including substantiation of payment. Contingent on documentation received for the remaining 11 “voluntary moves” and four “evictions” in question, additional relocation assistance forms may be required. The Heights also provided HUD-50058 (Family Report) forms (samples attached as HUD 50058 forms Sampling of 36 tenant forms received) and leases for all thirty-six tenants who received vouchers, as well as a list of the six tenants who moved to another public housing authority property, demonstrating each tenant’s eligibility for the housing “gap” payment.

TDHCA is in the process of drafting a response to the Heights after this most recent submission of

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documents.

TDHCA will take every measurable action to ensure compliance with URA and Section 104(d) and to rectify the issue of noncompliance detailed in the monitoring letter. TDHCA will continue to work closely with The Heights to clear the finding. Additionally, failure to comply with TDHCA requests to clear this finding may result in loss of future awards to members of this development team.

TDHCA will request documentation from The Heights to support the elimination of eight 4-bedroom units. Verbal communication with the Kingsville Housing Authority indicates that of the eight 4-bedroom units, four were leased to families being overhoused, two units were used for Headstart and Family Planning, and two units were vacant. The Heights also indicated that other Kingsville Housing Authority properties (Canal Villa and Maple Circle) are experiencing lack of demand for 4-bedroom units. TDHCA has adopted and published the following language in the 2013 Uniform Multifamily Rule (pending Board approval) for what constitutes an **ineligible proposed development** at application:

“A Development utilizing a Direct Loan that is subject to the Housing and Community Development Act, §104(d), requirements and proposing Rehabilitation or Reconstruction, if the Applicant is not proposing the one-for-one replacement of the existing unit mix.”

The following language is in the HOME Certification submitted with the application:

“Before receiving a commitment of HOME funds for a project that will directly result in demolition or conversion, the project owner will make the information public in accordance with 24 CFR Part 42 and submit to TDHCA the following information in writing [...] Information demonstrating that any proposed replacement of housing units with similar dwelling units (e.g. a 2-bedroom unit with two 1-bedroom units) or any proposed replacement of efficiency or SRO units with units of a different size is appropriate and consistent with the housing needs of the community.” TDHCA rules, Notices of Funding Availability (NOFAs), applicant certifications and/or written agreements for funds subject to URA and Section 104(d) shall include required references of federal regulations and state compliance mandates, as appropriate. TDHCA created a Relocation Handbook to communicate relocation policies, procedures and state and federal mandates to recipients of funds subject to URA and Section 104(d). Additional resources can be found at the TDHCA relocation website at <http://www.tdhca.state.tx.us/programservices/ura/index.htm>. The site distributes training materials; direct links to URA and Section 104(d) regulations; and provides a link to the HUD Handbook 1378 to adequately advise recipients of state and federal mandates. TDHCA provides, and in some cases mandates, the use of TDHCA spreadsheet templates to capture occupancy data and excel tools to assist in the calculation of tenant relocation payments and project relocation budgets. TDHCA used HUD guidelines to create templates for the most common relocation notices. Additional guidance will be made available during webinar and in-person trainings. Last, the TDHCA relocation monitoring scope and tools will test for compliance of URA and Section 104(d) during on-site and desk reviews.

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

**Recommendation Age (in days):** 91

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## ***Detailed Audit Findings***

**Report Name:** HUD Technical Assistance and Monitoring Review

**Division:** Multifamily Finance Division

**Report Date:** 08/02/2012

**Current Status:** Pending

**Finding:** Incorrect replacement housing payment calculations; improper disbursement and failure to evidence receipt of replacement housing payments; failure to provide referrals to decent, safe, and sanitary replacement dwellings; and failure to ensure persons were permanently relocated to same.

In projects where tenants were found to receive a Notice of Nondisplacement, the letter did not include the locations of potential units available for temporary housing. Sponsors were not observed to have provided any follow-up notification advising of same at a later date, closer to the actual time of temporary relocation. It is unclear to HUD the extent of advisory services provided in general.

The HPD Red Oak project resulted in at least two permanent displacements. In both cases, technical aspects of the relocation were not in accordance with ORA regulations and IJUD policy.

The tenant of unit 109 was issued a Notice of Eligibility for Relocation Assistance due to being over income. The project rent roll identified the household as having two persons in occupancy of a two-bedroom unit. Prior to displacement, it appeared the household was comprised of three persons. Although the household was offered a rental assistance payment, it was computed on the cost of one-bedroom dwellings that would not satisfy either the functional equivalency or decent, safe, and sanitary criteria under the URA definition of "comparable." Additionally, there are varying indications as to the exact amount of monthly rent and utilities paid by the tenant at the displacement dwelling. No decent, safe, and sanitary inspection was conducted on the tenant's replacement dwelling to verify it met the condition requirements to be eligible for payment, nor was any conducted on the dwellings used in the calculation as required. Rental assistance was disbursed to the tenant in two installments, both issued within a 40-day period. However, it is unclear if the expenditure was done in accordance with this plan since there was no evidence the tenant actually received moving and rental assistance payments.

In the case of unit 14, the tenant was displaced due to her status as a full-time student without dependents. Project records contained conflicting data as to her actual amount of monthly rent and utilities, but according to the Notice of Eligibility for Relocation Assistance the tenant paid no rent at Vermillion Square. While she was offered a rental assistance payment based on the costs of one-bedroom dwellings, the amount of the payment was improperly capped at \$5,250. None of the dwellings listed in her relocation notice were confirmed to be decent, safe and sanitary nor was her replacement unit. This tenant appears to have received an unknown amount in rental assistance based on a written statement to lease the upstairs portion of her father's home at a cost of \$600 per month. No market analysis was conducted to assess whether or not this was truly an arms-length rental lease or if the amount charged for this type of housing arrangement was reasonable.

**Recommendation:** For HPD Red Oak, TDHCA must initiate a recalculation of the replacement housing payments for units 14 and 109. Tenants must be made aware of the revised calculation, which must be approved by HUD. Any underpayment for which a tenant may be otherwise entitled must be issued to the tenant. For unit 109, since the tenant was not offered a comparable replacement dwelling before leasing and occupying the replacement, the revised payment must be based on the cost of the actual replacement chosen by the displacee provided it is otherwise decent, safe, and sanitary. Technical

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assistance will be provided for unit 14 upon request, given the tenant received a replacement housing payment but did not actually enter into a written lease agreement.

TDHCA must also include a process in which all URA replacement housing and moving payments will be approved by designated staff prior to issuance of a Notice of Eligibility for Relocation Assistance.

**Management Response:** TDHCA requested, on August 17, 2012, from HPD Red Oak the following information for the two displaced households identified in the monitoring letter:

**Target Implementation Date:** 01/31/13

**Actual Implementation Date:** N/A

Unit 109:

- Recalculation and documentation of corrected rental assistance payment.
- Verification of the exact amount of monthly rent and utilities paid by the tenant at the displacement dwelling.
- Certification that the displacement dwelling met decent, safe, and sanitary standards.
- Evidence the tenant received moving cost and rental assistance payments.

Unit 14:

- Recalculation and documentation of corrected rental assistance payment.
- Certification that the displacement dwellings met decent, safe, and sanitary standards.
- Documentation verifying arms-length rental lease and a comparable unit study to ensure cost reasonableness.

Red Oak responded on September 7, 2012 (documentation attached). TDHCA accepted, for both households, the income documentation and decent safe and sanitary replacement dwelling inspection forms. TDHCA also accepted the market study of comparable units and lease agreement for Unit 14- Photographs of the rental unit leased by the household were also submitted for TDHCA review.

On October 4, 2012, TDHCA requested further information (correspondence attached). TDHCA calculated the allowable rental assistance payments to the households and provided further instruction on disbursement. On October 5, 2012, Red Oak submitted additional response which included acceptance of the TDHCA relocation budget worksheets and copies of both the initial payments already made to the households and copies of checks to be disbursed upon TDHCA approval. On October 8, 2012, TDHCA placed a call to Red Oak in which it was determined that claim forms should be submitted by both the and households as verification that the households were aware of and would receive proper payment. TDHCA sent the HUD claim form templates to Red Oak on that date. The completed forms have not been submitted to TDHCA as of October 23, 2012, but we anticipate that the forms will be submitted in the very near future, at which point we will advise Red Oak to disburse the funds to the households.

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The TDHCA Relocation Handbook requires recipients of funds subject to URA and 104(d) to submit, at Initiation of Negotiations, copies of the Notices of Non-Displacement and Notices of Eligibility for each tenant that is supported by the Household Relocation Assistance Budget Calculator (See Appendix 6 in the Relocation Handbook). TDHCA will review and approve the documentation for accuracy and consistency with all federal and state relocation requirements. The approval will occur prior to the initial disbursement of federal funds.

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

**Recommendation Age (in days):** 91

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## ***Detailed Audit Findings***

**Report Name:** HUD Technical Assistance and Monitoring Review

**Division:** Multifamily Finance Division

**Report Date:** 08/02/2012

**Current Status:** Pending

**Finding:** Records for the rehabilitation of Crestmoor Park South Apartments identified tenants that were issued two different Notice of Nondisplacement in February 2009 instead of General Information Notice (GIN) followed later by either the Notice of Eligibility for Relocation Assistance or Notice of Nondisplacement (NND). The HOME agreement was not executed until September 10, 2009 whereas construction commenced shortly after closing on June 24, 2010. In the HOME application, the rent roll identified only one vacancy of the 68 units. Comparisons of the January 2009, July 2010, and June 2011 rent rolls identified 25 households in occupancy at the time the project was proposed who were no longer in occupancy in July 2010. Unless a project sponsor has screened a household for their ability to meet resident occupancy criteria, it is difficult to issue an accurate notice providing reasonable guarantee to remain at the development. The Notices of Nondisplacement were not issued in a timely manner nor were tenants advised as to the location of available units for the duration of their temporary relocation.

For the HPD Red Oak project, no tenants were found to have received either a GIN or NND. The HOME application included rent roll listing 5 tenants of the Western Oak property who did not appear to be eligible for continued occupancy and were not provided either notice as required. A review of income certifications and new leases executed upon completion of the rehabilitation could not confirm all tenants were allowed to remain on-site, based on the rent roll dated February 28, 2010.

**Recommendation:** Where occupants vacate the project before being appropriately advised of their eligibility or ineligibility for relocation assistance, the grantee must initiate reasonable procedures to locate all former occupants who should have received notice. Each occupant's file must be documented with attempts to make contact and the results. The State must determine the eligibility or ineligibility for relocation assistance for each former occupant who is located and assist such persons with advisory services and relocation payments. TDHCA must submit to HUD the dates each occupant listed on the Crestmoor Park South Apartments rent roll dated January 2009 vacated the following units and the reason for their displacement. Persons who moved permanently after September 10, 2009 must be evaluated for their eligibility for URA assistance, for which HUD must concur with the State's assessment.

Units: 100, 101, 106, 107, 109, 110, 117, 118, 119, 123, 124, 127, 131, 136, 140, 141, 143, 145, 151, 153, 159, 161, 162, 163, and 164.

TDHCA must submit to HUD a listing by unit number to identify the final location of all tenants listed on the rent roll included with the HOME application for HPD Red Oak. All tenants who vacated the three sites after August 30, 2010 and did not execute a lease agreement upon completion of renovations must be located and for the purposes of offering permanent relocation assistance under the URA. HUD must concur with the State's determinations.

For future funding cycles, the State must develop and submit to HUD policies and procedures that identify how it will implement and monitor technical compliance with the URA for its HOME-funded multi-family rehabilitation/reconstruction program.

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**Management Response:** TDHCA requested, on August 16, 2012, from Crestmoor Park South's development owner:  
A listing by unit number identified under Finding 1 to identify the location of all tenants listed on the January 2009 rent roll included with the HOME application for Crestmoor.  
A listing by unit number identified under Finding 1 to identify the location of all tenants listed on the September 10, 2009 rent roll, which is the date the HOME Contract was executed by Crestmoor ownership.

- All tenants who vacated Crestmoor, after September 10, 2009 and did not execute a lease agreement upon completion of renovations must be located. Examples of reasonable procedures to locate former occupants include:
  - Certified mail to forwarded address;
  - Public notice i.e. newspaper advertisement;
  - Contacting the Emergency Contacts noted in applications; etc.
- Determination of eligibility for permanent relocation assistance under the URA, with backup documentation.

TDHCA informed Crestmoor that all persons who moved permanently after September 9, 2009 must be evaluated for their eligibility for relocation assistance by completing an Excel spreadsheet created by TDHCA staff for this purpose.

Crestmoor responded on September 25, 2012 providing incomplete or unsatisfactory support documentation. The response was determined to be inadequate, and on October 10, 2012, TDHCA requested the information above again. On October 17, 2012, Crestmoor responded to Finding 1 providing documentation.

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

**Target Implementation Date:** 01/31/13

**Actual Implementation Date:** N/A

**Recommendation Age (in days):** 91

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

## ***Detailed Audit Findings***

**Report Name:** HUD Affordable Housing Monitoring and Technical Assistance Visit

**Division:** Compliance Division

**Report Date:** 08/17/2012

**Current Status:** Pending

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

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

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

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

Lincoln Court Apartments - IDIS #2631  
Port Yelasco Apartments - IDIS #2636  
Colorado City Homes- IDIS #2676  
Colorado City Homes II - IDIS #2677  
Southeast Texas Community Development- IDIS #2680  
Ebenezer Senior Housing- IDIS #2681  
Spur Triplex - IDIS #2694

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Sterling Park Square • ID IS #2696  
Tyler Community Homes (Path) IDIS #2699  
Weldon Blackard Rental- IDIS #2706  
Railroad Street Rental Housing- IDIS #2711  
Sunrise Villas Apartments IDIS #2723  
Alamo Plaza Apartments- IDIS #3200  
Villa De Reposo - IDIS #4002  
Alta Vista Village Retirement Community- IDIS #4006  
Spring Garden Apartments IV- IDID #4007  
Plainview Duplex - IDIS #4008

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

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

**Management Response:** The Department is providing an update on the multifamily portfolio as Attachment A.

**Target Implementation Date:** 02/28/13

**Actual Implementation Date:** N/A

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

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

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

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## **AUDIT COMMITTEE REPORT ITEM**

### **INTERNAL AUDIT**

**JULY 25, 2013**

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

### **REPORT ITEM**

The Internal Audit Division has received 75 complaints of fraud, waste or abuse in fiscal year 2013 (as of 7/15/2013.)

### **BACKGROUND**

In fiscal year 2013, Internal Audit received 75 fraud complaints. Of these:

- 56 calls were received on our hotline:
    - 11 were related to the Department's programs or staff:
      - Tax Credits – 4
      - HOME –3
      - Manufactured Housing – 2
      - Compliance – 1
      - Personnel - 1
    - 45 were not related to the Department's programs or staff. These callers were referred to the appropriate agency for assistance.
  - 19 complaints were received from other sources:
    - 16 were related to the Department's programs:
      - Tax Credits – 7
      - Weatherization/CEAP – 5
      - Compliance – 1
      - HOME – 1
      - Neighborhood Stabilization Program -- 1
      - Multiple Programs – 1
    - 3 were not related to the Department's programs.
- The sources for these 19 complaints were:
- Public – 9
  - TDHCA Staff – 6
  - SAO Hotline –2
  - Sub-Recipient – 1
  - Media – 1
- 48 of the 75 complaints (64.0%) were not under the Department's jurisdiction.
  - The 27 TDHCA complaints were resolved as follows:
    - Closed –10

- Unsubstantiated – 8
- Referred to SAO and/or other oversight agencies – 6
- Pending – 3 (Of these, one was received in February, one in April and one in July of 2013.)