



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

RE: REVIEW OF THE NEIGHBORHOOD STABILIZATION PROGRAM CLOSE-OUT PROCEDURES

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Neighborhood Stabilization Program close-out procedures.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Neighborhood Stabilization Program* ("NSP") and to evaluate the administrative and internal control procedures related to the close-out process of expired and inactive contracts.

The NSP close-out procedure audit was identified during the 2018 fiscal year risk assessment. The NSP rated high on the risk assessment due to its level of complexity of transactions and processes.

## BACKGROUND

The NSP is a Department of Housing and Urban Development ("HUD") funded program authorized by the "Housing and Economic Recovery Act of 2008" ("HERA"), as a supplemental allocation to the Community Development Block Grant ("CDBG") Program. As established by HERA, NSP provided grants to all states and selected local governments, on a formal basis. The American Recovery and Reinvestment Act of 2009 ("Recovery Act") authorized additional NSP grants to be awarded to states, local governments, nonprofits, and a consortium of nonprofit entities, but on a competitive basis. The Recovery Act also authorized funding for national and local technical assistance providers to support NSP grantees.

The purpose of the NSP is to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. NSP provides funds to purchase foreclosed, vacant, or abandoned

homes and residential properties, in order to rehabilitate, resell, or redevelop them, stabilize neighborhoods and stem the decline of property values in communities impacted by the housing crisis.

Texas was awarded \$101,996,848 in NSP1, which was the first phase of NSP, and \$7,284,978 in NSP3, the last phase of the program. The amount of NSP1 was later reduced to approximately \$78,000,000.

TDHCA was responsible for expeditiously finding qualified buyers to inhabit the dwellings that were rehabilitated, in the neighborhoods that were to be stabilized. This included various hurdles such as credit worthiness, ability to make down payments, etc. This process is referred to as the “loan closings.” We did not audit the loan closing process.

In 2012, the HUD Office of Inspector General conducted an audit of TDHCA’s administration of the NSP, including the loan closing process. The HUD audit found various errors that TDHCA had made in processing HERA funds, including the loan closing process, among other issues. These errors were later corrected.

When a federal grant has run its course and will not be renewed, the grant is “closed out.” NSP1 is scheduled for close out in 2019. The NSP will continue in other activities, such as land banks. NSP1 contracts including loan activities have recently been closed out by the NSP staff. OIA was asked to review close out procedures of individual contracts in preparation for a later overall close out review by HUD.

## **RECONCILIATION PROCESS**

The Program Services staff works in collaboration with NSP staff to review, reconcile, and close-out NSP contracts. The process starts by Program Services staff reviewing specific information about inactive or expired contracts such as the budget, obligation amount, and total amount drawn in Housing Contract System (“HCS”), and comparing them to the information available on Disaster Recovery Grant Reporting System (DRGR). This is a system used by HUD to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor grant compliance. Program Services staff performs adjustments as needed for the reconciliation process. Once a reconciliation is complete, Program Services prepares and mails out the close-out letter to the Contract Administrator (AKA Sub-recipients). NSP staff then starts the process of closing the contract in HCS which includes de-obligating any remaining funds as needed. NSP staff then uploads all the necessary documents to the HCS and transfers any de-obligated funds back to the Program Fund.

## **TESTING**

This review of the close out processes was not designed for purpose of issuing opinions on compliance or internal control. TDHCA and its sub-recipients are subject to the Single Audit Act; and this process is eligible for testing in those audits. Also, HUD program monitors and auditors may review the program. As one of our testing items we verified that TDHCA’s sub-recipients had undergone Single Audits, when so required. We also tested the final contract amount, draw amount, and amount listed on the contract close-out letter, and compared them to the record on DRGR. We reviewed supporting documentation for eligible expenses for verification of each draw.

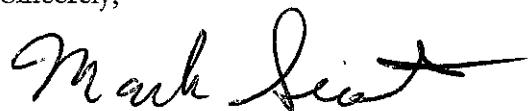
## OVERALL RESULTS

As of the start of our review there were 61 contracts that were reconciled and closed out, from which we selected a sample of 10 contracts to review. This sample represented 15% of the total closed-out contracts as of the start of this audit. We reviewed information and documents, such as original contracts and amendments (if any) available on HCS. We also reviewed DRGR for confirmation of the corresponding information.

Based on our reviews, and testing, the NSP close-out process is effective and no instances of non-compliance were noted.

OIA extends our appreciation to management and staff of the Neighborhood Stabilization Program for their cooperation and assistance during the course of this audit.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott". The signature is written in a cursive, flowing style.

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