

An Audit Report on

Selected Assistance Programs at the Department of Housing and Community Affairs

June 2003

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Selected Assistance Programs at the Department of Housing and Community Affairs

Overall Conclusion

The Department of Housing and Community Affairs (Department) has significant weaknesses in its Weatherization Assistance Program (WAP) that allow subgrantees to provide unallowable weatherization services to people who do not qualify for participation in this program. (In conjunction with a federal investigation, the State Auditor's Office Special Investigations Unit is investigating one of the WAP subgrantees we audited and will report the results of that investigation separately.) The other four programs we audited have some, but not all, of the same weaknesses we identified in the WAP; those weaknesses also could allow unqualified people to receive services.

The Department also is not adequately addressing the current unmet need for housing as it relates to the Section 8 Housing Choice Voucher (Section 8) Program, and it has not fully corrected several Section 8 noncompliance issues identified in federal and external reviews conducted in 2000.

The Department has not made cost-effective decisions regarding its WAP energy audit software. Other weaknesses in information technology at the Department and its subgrantees limit the Department's ability to rely on the data in its information systems.

The Department generally disburses funds according to the objectives of the five programs we audited. However, it reports that it did not spend \$830,000 (nearly 9 percent) of its Section 8 budget during program year 2002. The Department generally spends all available funds for the other four programs we audited. Almost all of the \$95 million in funding disbursed annually through the five programs we audited comes from the federal government.

Assistance Programs Audited

We audited the following programs at the Department:

- Weatherization Assistance Program
- Section 8 Housing Choice Voucher Program
- Comprehensive Energy Assistance Program
- Community Services Block Grant
- Emergency Shelter Grant Program

With the exception of the Weatherization Assistance Program, all of the funding for these programs comes from the federal government. The Weatherization Assistance Program is funded both through federal funds and the State's System Benefit Fund.

Appendix 2 summarizes the programs we audited, the services each program provides, the amount of funds associated with each program, and the areas in which we identified weaknesses in each program.

Key Points

Eligibility issues increase the risk that WAP subgrantees could provide unallowable weatherization services to people who do not qualify for participation in this program.

The Department does not ensure that WAP subgrantees comply with program requirements to ensure that allowable weatherization services are delivered to the low-income people



for whom the program was intended. Examples of requirements with which subgrantees have not complied include conducting required energy audits to determine which weatherization services should be provided and ensuring that 66 percent of the rental units per building in a multi-family dwelling are inhabited by people who meet the income threshold.

Weaknesses in the process that three programs use to determine income eligibility increase the risk that ineligible applicants could receive program services.

Subgrantees for the Department's WAP, Comprehensive Energy Assistance Program (CEAP), and Community Services Block Grant (CSBG) annualize applicants' 30-day household incomes across an entire year to determine whether the applicants meet income eligibility thresholds. However, this method enables ineligible applicants to receive services. Ten percent of the households we tested received services even though their annual household incomes (according to Texas Workforce Commission data) exceeded the relevant program's income eligibility thresholds.

The Department is not adequately addressing the current unmet need for housing as it relates to the Section 8 program.

At the end of program year 2002, local operators through which the Department administers its Section 8 program had awarded only 88 percent of Section 8 housing assistance vouchers. This left 247 vouchers (12 percent of the Department's allotment) unused. At the same time, however, the local operators maintain waiting lists for this program.

In addition, the U.S. Department of Housing and Urban Development may reduce the Department's future Section 8 funding because the Department:

- Has not achieved full compliance with several of the issues identified in 2000.
- Had awarded less than 90 percent of its Section 8 vouchers by the end of program year 2002.

The Department has not made cost-effective decisions regarding its WAP program energy audit software, and other information technology weaknesses limit the Department's ability to rely on the data in its information systems.

Although free energy audit software for the Department's WAP program is available from the federal government, the Department paid a vendor \$232,000 to develop another energy audit program called Easy Audit. It is spending an additional \$240,000 to upgrade that software. In addition, weaknesses in Easy Audit limit its reliability and effectiveness.

Other information technology weaknesses we identified at the Department include its automated system losing electronic signatures, its lack of an alternative site agreement, and inconsistent data in its automated systems.

The Department generally disburses funds according to program objectives, but it does not always target priority populations.

The Department generally disburses funds according to the objectives of each of the programs we audited. However, the Department does not ensure that WAP subgrantees target weatherization services to priority populations, such as the elderly and disabled, that the U.S. Department of Energy has established.

Summary of Management's Response

The Department generally agrees with our recommendations and has begun to implement corrective action. However, the Department's response did not address our recommendations regarding its WAP energy audit software. We have provided a follow-up comment to express concern that the Department has not justified the \$472,000 it is spending to develop and upgrade the software, that this software has certain flaws that an upgrade may not correct, and that the Department does not own the software source code. The Department's full response and our follow-up comment appear in Appendix 4.

Summary of Information Technology Review

We focused our information technology (IT) work on reviewing the Department's Genesis system, which stores financial and performance information on the programs. The Department developed Genesis, and it is now developing a new central database system to replace Genesis. We also audited the manual interface between Genesis and the Client Server Accounting System (CSAS), the Department's internal accounting system. We found that Genesis contains inaccurate data because when Department users change the information in CSAS, they are not required to make the same changes to the information in Genesis. In addition, we reviewed IT controls at the subgrantees we audited.

As discussed in the Key Points, the Department should strengthen controls over the acquisition of its Easy Audit software; it should also strengthen certain controls over IT in areas such as electronic signatures and the establishment of an alternative site agreement. Chapter 3 of this report contains details on our review of IT.

Summary of Objectives, Scope, and Methodology

For each of the five programs we audited, our objectives were to answer the following questions:

- When funds reach the communities, are subgrantees spending them to provide eligible services to eligible people?
- Does the Department disburse funds according to program objectives?
- Did the Department spend all available funds to maximize service delivery?

As part of the above objectives, we also audited the Department's program monitoring and related information technology.

For the Section 8 program, we had additional objectives to (1) determine whether the Department is addressing the current unmet need for housing and (2) follow up on the Department’s noncompliance with Section 8 requirements that the U.S. Department of Housing and Urban Development and an external auditor previously identified.

Our scope covered program activities at the Department and five subgrantees during fiscal years 2001 and 2002. The audit methodology consisted of collecting information, performing selected tests and other procedures, analyzing and evaluating the results against established criteria, and conducting interviews with Department management and staff.



Table of Results and Recommendations  denotes entry is related to information technology
Eligibility issues unique to the weatherization of multi-family dwellings increase the risk that subgrantees could provide unallowable services to ineligible people. (Page 1)
The Department should: <ul style="list-style-type: none"> ▪ Determine whether the multi-family dwellings that received WAP services in fiscal years 2001 and 2002 were actually eligible for these services. If these dwellings were not eligible, the Department should recover the amounts that it paid for these services from the subgrantees. ▪ Develop, communicate, and enforce policies and procedures to ensure that it achieves the following outcomes for the WAP program: <ul style="list-style-type: none"> ♦ Each building in a multi-family dwelling has at least the required percentage of income-eligible units. ♦ Subgrantees do not spend more than the maximum amounts of federal funds allowed to weatherize individual units in a building in a multi-family dwelling. ♦ Subgrantees have appropriately ensured that, before the weatherization work begins, (1) the applicant and the dwelling unit are eligible and (2) all required documentation is completed. ♦ The owner of the multi-family dwelling provides the required assurance that the low-income residents will not be subjected to rent increases as a result of receiving weatherization services. The above goals could be accomplished through a monitoring or preapproval process. ▪ Require that WAP subgrantees provide the Department with monthly status updates on (1) how much they have spent from all federal and state sources to weatherize each multi-family dwelling and (2) what percentage of the work on each dwelling has been finished. Using this information, the Department should track the amount of program funds that have been spent to weatherize multi-family and single-family dwellings.
Weaknesses in the process that three programs use to determine income eligibility increase the risk that ineligible applicants could receive program services. (Page 5)
For the WAP, CEAP, and CSBG programs, the Department should obtain information for household income for a period that is longer than 30 days to determine an applicant’s income eligibility. The period selected should provide reasonable assurance that the Department is not providing services to people whose household income levels exceed the income eligibility threshold.
The Department does not ensure that WAP subgrantees provide allowable, cost-effective services. (Page 5)
The Department should: <ul style="list-style-type: none"> ▪ Ensure that WAP subgrantees consistently document their decision criteria for providing weatherization services to WAP applicants. ▪ Ensure that WAP subgrantees provide services only to applicants who meet the program’s eligibility criteria. ▪ Ensure that WAP subgrantees obtain residents’ signatures on final inspection forms to verify that the weatherization work was actually performed.

Table of Results and Recommendations

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- Ensure that, because the energy audits are a critical factor in the determination of which services will be performed, subgrantees:
 - ♦ Input adequate data into the energy audit software.
 - ♦ Conduct energy audits before providing weatherization services.
 - ♦ Perform separate energy audits for each unit to be weatherized.
 - ♦ Allow only qualified individuals to conduct the energy audits.
- Provide adequate guidance to subgrantees to ensure that subgrantees maintain current contracts with weatherization contractors and pay contractors reasonable prices. If the Department chooses to allow a variety of contract pricing mechanisms, it should provide guidance related to each alternative and describe the associated benefits and risks. If payments are based on costs, subgrantees need to verify the accuracy of contractor's claimed costs; if payments are based on a flat rate, subgrantees' contracts must include clear statements of work so that the flat rate can be justified.

The Department's monitoring of WAP, CEAP, and CSBG Subgrantees does not ensure that subgrantees provide allowable services to eligible people. (Page 7)

The Department should:

- Not close files that have issues it identifies during monitoring at WAP, CEAP, and CSBG subgrantees until the subgrantees have corrected these issues.
- Provide copies of its WAP, CEAP, and CSBG monitoring reports to subgrantees' board chairs to help ensure that subgrantees address issues identified during monitoring.
- Develop WAP monitoring standards that ensure that monitors review a sufficient amount of information to support their conclusions. WAP monitors also should document which contracts, files, and other documentation they reviewed to draw their conclusions.

The Department is not addressing the unmet need for housing as it relates to the Section 8 program. (Page 10)

The Department should coordinate with HUD to explore methods to increase the percentage of Section 8 vouchers it awards.

The Department cannot ensure that local operators award Section 8 vouchers to families in the required order. (Page 12)


The Department should require that local operators provide enough information so that the Department can verify whether local operators award vouchers to the individuals who have waited the longest to receive them.


Although the Department has made some progress, it has not fully corrected several Section 8 noncompliance issues identified by HUD and an external auditor. (Page 12)

The Department should:

- Ensure that local operators complete all required elements on Section 8 waiting lists.
- Ensure that Section 8 files contain notification letters informing applicants that vouchers may be available to them.
- Ensure that Section 8 rent reasonableness is adequately tested and documented.
- Ensure that old versions of the Section 8 lease addendum form are not readily available to staff or local operators, and conduct sufficient reviews of Section 8 files to detect the use of incorrect or obsolete forms.
- Submit a Section 8 family self-sufficiency plan or obtain an exemption from this requirement.
- Implement an annual file review to re-examine family income for each Section 8 participant as recommended by the external auditor.
- Determine why documents are not in Section 8 files, despite the Department's supervisory review process. If necessary, the Department should consider a second level of review to ensure that tenant files contain all required documents.

Table of Results and Recommendations

 denotes entry is related to information technology

 The Department has not made cost-effective decisions regarding its energy audit software, and weaknesses in this software can affect eligibility determination. (Page 14)


The Department should conduct and document a thorough cost-benefit analysis to determine which energy audit software—the free federal software or Easy Audit—is the best and most cost-effective energy audit software to use in the WAP program. This analysis should consider the costs associated with addressing all federal restrictions on the Department’s use of Easy Audit, as well as consideration of the following:

- Upgrading Easy Audit to ensure that (1) electronic energy audit files are accessible or (2) the hard-copy printouts display enough of the data that subgrantees input so that monitors can verify that subgrantees input the right prices and costs into the software. This will enable monitors to trace the data inputs from the testing document to the Easy Audit electronic file or the hard-copy printout.
- Removing cost and efficiency ratio default numbers from Easy Audit so that subgrantees would be required to input actual numbers for key measurements.
- Adding edit checks to Easy Audit to verify that the cost and efficiency ratios entered are within acceptable ranges.

 Certain information technology weaknesses at the Department limit the security and integrity of information. (Page 16)

The Department should:

- Ensure that it has valid contracts with subgrantees by restoring missing electronic contract signatures or by obtaining ratifying signatures for its current contracts. In addition, the Department should monitor the maintenance of these signatures, and ensure that this problem will not recur in the new central database system. The maintenance of these signatures should be tested before the new central database system is considered complete.
- Enter into an alternative site agreement through which it would have the necessary hardware to run its applications in the event of a disaster. Because full implementation of the new central database system will not be complete until August 2005, the alternative site agreement should be able to run applications in the Department’s existing system, as well as applications in the Department’s new central database system.
- Ensure that decisions are made based on accurate information. The Department should duplicate in Genesis any changes it makes in CSAS. In addition, the Department should implement a reconciliation process between Genesis and CSAS.
- Ensure that the information in its ESGP monitoring tracking system is accurate.

 Information technology weaknesses at subgrantees limit the Department’s ability to safeguard information. (Page 17)

The Department should:

- Provide subgrantees with technical assistance regarding IT system controls to ensure that subgrantees maintain the integrity of and adequately safeguard information.
- Monitor IT controls at subgrantees to ensure that they maintain the integrity of and adequately safeguard information.

The Department does not ensure that WAP subgrantees target weatherization services to established priority populations. (Page 19)

The Department should:

- Ensure that priority populations are given priority to WAP services.
- Ensure that the priority populations specified in its contracts with WAP subgrantees are consistent with the priority populations established by the federal government.

The Department lacks a policy to preclude ESGP subgrantees from approving their own grant awards. (Page 20)

The Department should develop and implement policies and procedures to preclude ESGP grant recipients from serving on the team that reviews their own applications and retain sufficient documentation to demonstrate that ESGP grant recipients do not review their own applications for funds.

Recent SAO Work		
Number	Product Name	Release Date
03-025	An Audit Report on Compliance with Benefits Proportional by Fund Requirements at 20 State Entities	March 2003
03-008	An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities	November 2002
01-013	An Audit Report on the Integrated Statewide Administrative System at Selected Agencies	January 2001
01-009	An Audit Report on the Department of Housing and Community Affairs	December 2000

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Detailed Results

Chapter 1

When funds reach the communities, are subgrantees spending them to provide allowable services to eligible people?

The Department of Housing and Community Affairs (Department) does not ensure that Weatherization Assistance Program (WAP) subgrantees always provide allowable services to eligible people. We identified several weaknesses in WAP subgrantees' determination of (1) who was eligible for this program and (2) which program services should have been provided. (In conjunction with a federal investigation, the State Auditor's Office Special Investigations Unit is investigating one of the WAP subgrantees we audited and will report the results of that investigation separately.)

What Is a Subgrantee?

In this report, we use the term *subgrantee* to refer to an entity with which the Department contracts to deliver program services. These entities can include community action agencies, city and county governments, regional planning commissions, and other nonprofit organizations.

For the Community Service Block Grant (CSBG), Comprehensive Energy Assistance Program (CEAP), and Emergency Shelter Grant Program (ESGP), we identified weaknesses in the Department's processes for eligibility determination and monitoring that could affect whether these programs provide allowable services to eligible people. We did not identify significant instances in which these programs provided services to ineligible people or provided unallowable services; however, the process weaknesses we identified indicate that the Department cannot ensure that this does not occur.

The Department has not fully corrected several Section 8 Housing Choice Voucher (Section 8) Program noncompliance issues, as is discussed in Chapter 2-C. These issues also could affect Section 8 eligibility determination.

Chapter 1-A

Eligibility Issues Unique to the Weatherization of Multi-Family Dwellings Increase the Risk that Subgrantees Could Provide Unallowable Services to Ineligible People

The Department does not ensure that WAP subgrantees that provide weatherization services to multi-family dwellings (such as apartment complexes) verify that these dwellings are eligible to receive these services. We identified several eligibility weaknesses that were unique to the WAP program's weatherization of multi-family dwellings. The Department does not track how much money it spends to weatherize multi-family dwellings. However, in fiscal year 2002, the Department spent \$17.9

million to weatherize 3,611 single-family dwellings and 3,656 units in multi-family dwellings.¹

Weatherizing a multi-family dwelling involves an additional risk that the property owner, rather than the low-income individual who resides in the dwelling, could benefit inappropriately from the program. Therefore, the federal government has established specific requirements for multi-family dwellings to ensure that the benefits of weatherization assistance accrue *primarily* to the low-income individuals residing in those dwellings. (See the text box for requirements specific to multi-family dwellings.) However, we found that the Department does not ensure that:

- Subgrantees provide weatherization services only to eligible multi-family dwellings.
- Subgrantees do not exceed the maximum they can spend to weatherize a multi-family dwelling.
- Subgrantees that weatherize multi-family units fulfill a variety of other WAP requirements.

The Department Does Not Ensure that Subgrantees Provide Weatherization Services to Only Eligible Multi-Family Dwellings

The Department does not ensure that WAP subgrantees comply with the federal requirements for weatherizing multi-family dwellings. In our testing at three WAP subgrantees, we found the following:

- Two subgrantees did not have evidence showing that they complied with a federal requirement that 66 percent of the units per building in the multi-family dwellings they weatherized met income-eligibility requirements. Another subgrantee provided evidence for several of its multi-family dwellings. However, that documentation indicated that one of the buildings in a dwelling was not eligible for weatherization, yet this subgrantee weatherized at least two of the units in that building during our test period at a cost of \$7,299.

Federal Requirements for Weatherizing Multi-Family Dwellings

Code of Federal Regulations, Title 10, Section 440.22 (10 CFR 440.22), specifies that a WAP subgrantee may use federal funds to weatherize multi-family dwellings when both of the following conditions are met:

- The subgrantee obtains written permission from the owner or his agent.
- If more than four units in a building in a multi-family dwelling are to be weatherized, at least 66 percent of the units in the building are inhabited by residents whose household income levels are at or below 125 percent of the federal poverty level.

10 CFR 440.22 also states that the Department must establish procedures to ensure that:

- The benefits of weatherization assistance should accrue primarily to the low-income individuals residing in the weatherized units in a multi-family dwelling.
- The weatherization work should not lead to an increase in rent, and a complaint process must be established to enforce this requirement.
- No undue or excessive enhancement should occur to the value of the multi-family dwelling.
- Each unit in the multi-family dwelling must have undergone an energy audit to identify cost-effective weatherization services

¹ These are approximate figures based on subgrantee reports submitted through Genesis, the Department's automated system that stores financial and performance information on programs.

- Two subgrantees may have spent WAP funds inappropriately because they incorrectly used Section 8 program eligibility criteria to determine whether some multi-family dwelling units were eligible for weatherization services. The income eligibility thresholds for WAP and Section 8 differ, and many households that qualify for Section 8 still do not qualify for WAP services.
- One subgrantee's files for one of its multi-family dwellings included only copies of the residents' rental applications and did not include any other form of income verification required by the Department. The rental applications did not require the residents to certify that their income was at or below the threshold for the program.

The Department Does Not Ensure that Subgrantees Do Not Spend More than the Maximum to Weatherize a Multi-Family Dwelling

According to the U.S. Department of Energy, the maximum amount of federal funds that a WAP subgrantee can spend to weatherize a multi-family dwelling is \$2,568 multiplied by the number of units inhabited by eligible residents in the multi-family dwelling. However, the Department has neither implemented a process nor monitored to ensure that subgrantees comply with this requirement.

The Department does not track how much a subgrantee spends on individual multi-family dwellings or on single-family versus multi-family dwellings. The total dollar amount approved for the weatherization of any of the multi-family dwellings in any of our samples was not available at the Department or at the subgrantees. The Department's failure to collect and maintain these records prevents it from ensuring that subgrantees stay within the \$2,568 federal fund limit. In addition, the subgrantees did not maintain records on the number of dwelling units that were in each of the multi-family dwellings or the number of individual units that were inhabited by income-eligible families. As a result, neither we nor the Department can determine what portion of the federal funds allowed for the weatherization of buildings in those dwellings has been spent and what portion remains available.

The Department Does Not Ensure that the Subgrantees that Weatherize Multi-Family Units Fulfill a Variety of Other WAP Requirements

In reviewing subgrantees' files associated with multi-family dwellings that had received weatherization services, we found many instances in which subgrantees failed to comply with program requirements. These instances illustrate the breakdown of controls designed to ensure that (1) applicants are held accountable for the assertions they make in their applications, (2) weatherization services are actually performed, (3) confidential information is appropriately obtained and used, and (4) property owners do not increase the rent as a result of the weatherization work. When controls are overridden, there is no assurance that the process is operating as intended. We found the following:

- Applicants did not always fully complete WAP applications and did not always sign them. As a result, it was not possible to verify their income levels or hold them accountable for the accuracy of the information in the applications.
- Authorized individuals did not always sign final inspection forms indicating that the weatherization work had been completed. Without these final inspection

forms, there is no independent confirmation that the work has been completed or that it was completed in compliance with U.S. Department of Energy guidelines.

- At one subgrantee, utility billing histories were obtained without the appropriate authorization. In 16 of 47 cases we reviewed, the person who authorized the release of the information was not the person responsible for paying the bill. According to the Department, only the tenant can authorize the release of utility information.

This subgrantee also did not have contracts with the owners of two multi-family dwellings to ensure that the owners did not inappropriately raise rents. Federal rules require the Department to ensure that “for a reasonable period of time after weatherization work has been completed on a dwelling containing a unit occupied by an eligible household, the tenants in that unit ... will not be subjected to rent increases unless those increases are demonstrably related to matters other than the weatherization work performed.” The Department has adopted a contract for subgrantees to use that would address this requirement, but it does not have a process to ensure that subgrantees always use this contract.

Recommendations

The Department should:

- Determine whether the multi-family dwellings that received WAP services in fiscal years 2001 and 2002 were actually eligible for these services. If these dwellings were not eligible, the Department should recover the amounts that it paid for these services from the subgrantees.
- Develop, communicate, and enforce policies and procedures to ensure that it achieves the following outcomes for the WAP program:
 - ♦ Each building in a multi-family dwelling has at least the required percentage of income-eligible units.
 - ♦ Subgrantees do not spend more than the maximum amounts of federal funds allowed to weatherize individual units in a building in a multi-family dwelling.
 - ♦ Subgrantees have appropriately ensured that before the weatherization work begins, (1) the applicant and the multi-family dwelling unit are eligible and (2) all required documentation is completed.
 - ♦ The owner of the multi-family dwelling provides the required assurance that the low-income residents will not be subjected to rent increases as a result of receiving weatherization services.

The above goals could be accomplished through a monitoring or preapproval process.

- Require that WAP subgrantees provide the Department with monthly status updates on (1) how much they have spent from all federal and state sources to

weatherize each multi-family dwelling and (2) what percentage of the work on each dwelling has been finished. Using this information, the Department should track the amount of program funds that have been spent to weatherize multi-family and single-family dwellings.

Chapter 1-B

Weaknesses in the Process that Three Programs Use to Determine Income Eligibility Increase the Risk that Ineligible Applicants Could Receive Program Services

The process that the WAP, CEAP, and CSBG subgrantees use to determine income eligibility for services is an allowable process under federal regulations. However, it does not ensure that only qualified individuals receive services.

For each of these three programs, the Department's policy allows subgrantees to estimate an applicant's annual household income by annualizing a part of a year's income. Most programs have chosen to obtain documentation for an applicant's 30-day income and multiply that amount by 12 to estimate annual income. However, by using only 30 days of income, the Department allows applicants to receive services even if their annual household incomes exceed the program's income eligibility thresholds. Annualizing 30 days of income also could exclude applicants from receiving services even if their annual household incomes are less than the program's income eligibility thresholds.

Using employer-reported income information that the Texas Workforce Commission (Commission) collects, we found that 10 percent of the applicants we tested received program services even though their annual household incomes (according to the Commission's data) exceeded the program's income eligibility thresholds.

Recommendation

For the WAP, CEAP, and CSBG programs, the Department should obtain information for household income for a period that is longer than 30 days to determine an applicant's income eligibility. The period selected should provide reasonable assurance that the Department is not providing services to people whose household income levels exceed the income eligibility threshold.

Chapter 1-C

The Department Does Not Ensure that WAP Subgrantees Provide Allowable, Cost-Effective Services

The Department does not ensure that WAP subgrantees provide allowable services (regardless of whether the weatherized dwelling is a single- or multi-family dwelling). The following examples illustrate how subgrantees have provided unallowable or potentially unallowable WAP services:

- One subgrantee provided weatherization services to an applicant even though the subgrantee had determined that the applicant's household was not income-

eligible. The subgrantee spent \$2,469 on weatherization services for this household. The Department could recoup these funds by disallowing the costs and requiring the subgrantee to repay the disallowed costs.

This subgrantee also spent \$2,475 to replace refrigerators in a multi-family dwelling without meeting documentation requirements to show that these replacements were allowable. Specifically, the subgrantee replaced refrigerators in five of the eight units in our sample, but there was no documentation explaining why those units were selected for refrigerator replacement.

In addition, this subgrantee began weatherization work on three units in a multi-family dwelling before the energy audits had been completed. These three units received a total of \$2,060 in weatherization services.

- Another subgrantee completed and paid for \$202,000 in weatherization work at a multi-family dwelling before it had completed individual energy audits on the units it weatherized. The files supporting this work included photocopies of a single, incomplete energy audit rather than the required energy audit for each unit. After the Department made inquiries related to our finding, it found energy audits for each unit. However, these energy audits were not in the files when we reviewed them.

This same subgrantee did not have any of the residents in eight single-family dwellings sign the final inspection report signifying that the weatherization work was actually completed. In addition, in five of these cases, the required energy audits were not signed or dated, so there is no way to ensure that the audits were conducted before the weatherization work was done. These eight dwellings received a total of \$16,685 in weatherization services.

Furthermore, the Department does not ensure that subgrantees' contracts provide for cost-effective and allowable weatherization services. It does not provide guidance to WAP subgrantees regarding their contracts with weatherization contractors. As a result, we found the following in our audits of three WAP subgrantees:

- **The Department does not ensure that subgrantees' contracts have provisions to ensure that the subgrantees pay contractors reasonable prices for weatherization services.** For example, one subgrantee had three contracts that did not include price lists for materials and labor. These contracts also lacked provisions allowing the subgrantee to review the contractors' actual receipts for the purchase of materials, which was important because the cost of the materials in these contracts was the basis of the payment. The absence of a price list in a contract allows the weatherization contractor to charge the subgrantee any price for standard items such as caulk or plywood. The absence of provisions to view the contractor's receipts left the subgrantee unable to verify whether it reimbursed the contractor for its actual costs.

This same subgrantee also amended three weatherization contracts that had already expired. One amendment increased what the subgrantee would pay for labor from 65 percent of the cost of materials to 80 percent of the cost of materials. By amending these expired contracts rather than allowing other contractors to bid on this work, this subgrantee did not ensure that it paid the lowest price for weatherization services.

- **The Department does not ensure that subgrantees’ contracts adequately describe the scope of work weatherization contractors will perform.** For example, one subgrantee contracted with a contractor to “weatherize all eligible dwelling units” for a flat rate. This contract did not contain a statement of work or a definition of the term *weatherize*. As a result, the Department cannot ensure that the subgrantee holds the contractor accountable for its performance.

Recommendations

The Department should:

- Ensure that WAP subgrantees consistently document their decision criteria for providing weatherization services to WAP applicants.
- Ensure that WAP subgrantees provide services only to applicants who meet the program’s eligibility criteria.
- Ensure that WAP subgrantees obtain residents’ signatures on final inspection forms to verify that the weatherization work was actually performed.
- Ensure that, because the energy audits are a critical factor in the determination of which services will be performed, subgrantees:
 - ♦ Input adequate data into the energy audit software.
 - ♦ Conduct energy audits before providing weatherization services.
 - ♦ Perform separate energy audits for each unit to be weatherized.
 - ♦ Allow only qualified individuals to conduct the energy audits.
- Provide adequate guidance to subgrantees to ensure that subgrantees maintain current contracts with weatherization contractors and pay contractors reasonable prices. If the Department chooses to allow a variety of contract pricing mechanisms, it should provide guidance related to each alternative and describe the associated benefits and risks. If payments are based on costs, subgrantees need to verify the accuracy of contractor’s claimed costs; if payments are based on a flat rate, subgrantees’ contracts must include clear statements of work so that the flat rate can be justified.

Chapter 1-D

The Department’s Monitoring of WAP, CEAP, and CSBG Subgrantees Does Not Ensure that Subgrantees Provide Allowable Services to Eligible People

For three of the programs we audited, the Department’s monitoring function does not provide adequate assurance that program weaknesses are detected and corrected. Specifically, the WAP, CEAP, and CSBG programs close their monitoring processes without ensuring that subgrantees have addressed the issues identified during

monitoring. In addition, WAP monitors do not always identify issues that are present when they conduct monitoring.

The WAP, CEAP, and CSBG Programs Close Their Monitoring Processes Prematurely

The WAP, CEAP, and CSBG programs close their monitoring processes without ensuring that subgrantees have addressed the issues identified during monitoring. For example:

- Two of the 13 WAP subgrantees we tested did not respond to all the issues identified by the Department's monitors, but the monitors still closed the monitoring process at these subgrantees. Monitors noted that one of these subgrantees had incomplete files, performed inadequate inspections, and failed to sign the energy audits as required. The Department closed the monitoring process at this subgrantee by stating that the subgrantee's response was acceptable. The same issues still existed when we audited the subgrantee six months later. The Department paid this subgrantee \$832,521 in federal WAP funds for its 2001 and 2002 contract even though these issues remained unresolved.
- Two of the 13 CEAP subgrantees we tested did not respond to all of the issues the Department's monitors had identified, but the monitors still closed the monitoring process at these subgrantees. The Department allocated \$159,149 to one of these subgrantees while it continued to express its concerns about this subgrantee.
- Five of the seven CSBG monitoring files we reviewed included unresolved issues when the Department's monitors closed them. For example, in 2002 the Department's monitors noted that one subgrantee's fiscal officer had sole signature authority, which increases the risk of fraud and abuse. According to the Department, this condition had been identified as an issue in each of the past five fiscal years. The Department paid this subgrantee \$875,333 in CSBG funds for its 2002 contract while this issue remained unresolved.

Closing the Monitoring Process

When the Department closes its monitoring process, it informs the subgrantee that the subgrantee's responses are satisfactory and that the Department's monitoring review is complete for that year.

WAP Monitors Do Not Always Identify Issues that Are Present When They Conduct Monitoring

At two of the three WAP subgrantees we audited, we identified significant issues that were present at that time of the Department's monitoring but that the monitors did not report:

- We determined that one subgrantee could not produce an entire set of employee time sheets for any month in the past year. However, the Department's monitors indicated that this subgrantee's time sheets substantiated expenditures that the Department reimbursed. The monitoring documentation did not specify what the monitors reviewed in this area.
- As discussed in Chapter 1-C, another subgrantee amended contracts with its weatherization contractor although those contracts had already expired. All but

one of the subgrantee's contracts had expired at the time of the Department's last monitoring visit. However, the Department's monitor indicated that this subgrantee's contracts were adequate. The monitoring documentation did not specify which contracts were reviewed.

Recommendations

The Department should:

- Not close files that have issues it identifies during monitoring at WAP, CEAP, and CSBG subgrantees until the subgrantees have corrected these issues.
- Provide copies of its WAP, CEAP, and CSBG monitoring reports to subgrantees' board chairs to help ensure that subgrantees address issues identified during monitoring.
- Develop WAP monitoring standards that ensure that monitors review a sufficient amount of information to support their conclusions. WAP monitors also should document which contracts, files, and other documentation they reviewed to draw their conclusions.

Is the Department addressing the current unmet need for housing as it relates to the Section 8 Housing Choice Voucher Program?

At the ends of program years 2001 and 2002, local operators through which the Department administers its Section 8 Housing Choice Voucher (Section 8) Program had not awarded 213 (10 percent) and 247 (12 percent), respectively, of the Section 8 housing assistance vouchers available to them. At the same time, however, local operators maintain waiting lists containing the names of families who are waiting to receive vouchers. In addition to not awarding 12 percent of its Section 8 vouchers, the Department reports that it did not spend \$830,000 (nearly 9 percent) of its federal Section 8 budget by the end of program year 2002. Therefore, the Department is not addressing the unmet need for housing as it relates to the Section 8 program.

In addition, federal rules applicable to the Section 8 program require the U.S. Department of Housing and Urban Development (HUD) to begin the process of reallocating funding from housing authorities that (1) award less than 90 percent of their vouchers and (2) spend less than 90 percent of their annual budget authority. According to the Department's records, the Department had awarded only 88 percent of its Section 8 vouchers and had spent 91 percent of its annual Section 8 budget at the end of program year 2002. Therefore, the Department is close to having the conditions that would require HUD to begin reallocating its Section 8 funding.

The Department also does not require local operators to submit documentation showing that they award Section 8 vouchers to families in the order in which their names appear on the waiting lists. Although it has made some progress, the Department has not achieved full compliance with several of the audit issues identified through separate reviews that both HUD and an external auditor conducted in 2000. Continued noncompliance could put the Department at risk of losing its Section 8 funding.

Chapter 2-A

The Department Is Not Addressing the Unmet Need for Housing as It Relates to the Section 8 Program

As Table 1 shows, at the end of program years 2001 and 2002, local operators had not awarded 213 (10 percent) and 247 (12 percent), respectively, of the Section 8 housing assistance vouchers available to them. According to HUD officials, the Department could use a variety of techniques to increase the number of vouchers it awards through local operators.

Table 1 - According to the Department's information, local operators have not awarded all the Section 8 vouchers that HUD allocated to the Department.

Summary of Section 8 Housing Assistance Vouchers Not Awarded							
HUD Region	Region Description	As of June 30, 2001 ^a			As of June 30, 2002 ^a		
		Vouchers Available	Vouchers Not Awarded	Percent of Vouchers Not Awarded	Vouchers Available	Vouchers Not Awarded	Percent of Vouchers Not Awarded
Dallas/Fort Worth Region	16 local operators in this region award vouchers in 16 counties and 21 cities surrounding the Dallas/Fort Worth area	595	10	2%	624	63	10%
Houston Region	10 local operators in this region award vouchers in 9 counties and 19 cities surrounding the Houston area	1,220	159	13%	1,176	140	12%
San Antonio Region	13 local operators in this region award vouchers in 13 counties and 14 cities surrounding the San Antonio area	270	44	16%	270	44	16%
Totals		2,085	213	10%	2,070	247	12%

^a The federal program year for the Section 8 program extends from July 1 through June 30.

Source: Unaudited Department data regarding the number of vouchers available and awarded for each region.

While Section 8 rental assistance vouchers remain unused in certain areas, local operators maintain waiting lists containing the names of individuals who are waiting to receive vouchers. Although waiting lists cannot be used to measure all the unmet need for the Section 8 program, they do indicate that there is an unserved population. Waiting lists cannot be used to measure the unmet need in the state because names can be added to these lists only when the local operators open the lists. Therefore, the lists may be outdated and are not complete.

In addition to not awarding 12 percent of its Section 8 vouchers, the Department reports that it did not spend \$830,000 (nearly 9 percent) of its federal Section 8 budget by the end of program year 2002. Federal rules for the Section 8 program require HUD to begin the process of reallocating funding from housing authorities that (1) award less than 90 percent of their vouchers and (2) fail to spend 90 percent of their funding. Therefore, the Department is close to having the conditions that would require HUD to begin reallocating its Section 8 funding.

Recommendation

The Department should coordinate with HUD to explore methods to increase the percentage of Section 8 vouchers it awards.

The Department Cannot Ensure that Local Operators Award Section 8 Vouchers to Families in the Required Order

Federal guidelines and Department policy require that local operators award available Section 8 vouchers to families in the order in which the families' names appear on the Section 8 waiting lists. However, the Department does not require local operators to submit documentation indicating that they are doing this. Although the Department has access to the current waiting lists for each local operator, those waiting lists do not specify when families received vouchers or whether families did not receive vouchers for legitimate reasons. This means that the Department cannot determine whether the local operator awarded the vouchers in the required order.

Recommendation

The Department should require that local operators provide enough information so that the Department can verify whether local operators award vouchers to the individuals who have waited the longest to receive them.

Although the Department Has Made Some Progress, It Has Not Fully Corrected Several Section 8 Noncompliance Issues Identified by HUD and an External Auditor

Although it has made some progress, the Department has not fully corrected several Section 8 noncompliance issues. These issues were identified in two separate reviews conducted in 2000 (HUD conducted a management review and required the Department to hire an external auditor to conduct a program-specific audit of Section 8). Both reviews covered the same time period and identified similar problems. Continued noncompliance could put the Department at risk of losing its Section 8 funding.

Although the Department has not complied with all Section 8 requirements, it has instituted the quality control reinspection program that HUD required. Appendix 3 details the status of each prior issue that we reviewed. In general, noncompliance remains in the following areas in the Section 8 program:

- Waiting list administration
- Determination of rent reasonableness
- Documentation of required information
- Use of correct lease addendum forms
- Implementation of a family self-sufficiency program
- Annual re-examination of family income
- Supervisory and review processes

Recommendations

The Department should:

- Ensure that local operators complete all required elements on Section 8 waiting lists.
- Ensure that Section 8 files contain notification letters informing applicants that vouchers may be available to them.
- Ensure that Section 8 rent reasonableness is adequately tested and documented.
- Ensure that old versions of the Section 8 lease addendum form are not readily available to staff or local operators, and conduct sufficient reviews of Section 8 files to detect the use of incorrect or obsolete forms.
- Submit a Section 8 family self-sufficiency plan or obtain an exemption from this requirement.
- Implement an annual file review to re-examine family income for each Section 8 participant as recommended by the external auditor.
- Determine why documents are not in Section 8 files, despite the Department's supervisory review process. If necessary, the Department should consider a second level of review to ensure that tenant files contain all required documents.

Do Department and subgrantee information systems adequately support the five programs we audited?

We identified weaknesses in the Department's controls over the acquisition of its energy audit software; the Department also should strengthen certain controls over its information technology (IT). In addition, poor IT controls at the subgrantee level could jeopardize the Department's ability to rely on the accuracy and security of information it receives from its subgrantees.

The Department is developing a new central database system to replace Genesis and improve access to information. It expects to fully implement the new central database system by August 2005. It is critical that the Department ensures that the weaknesses in Genesis are not duplicated in the new central database system.

Chapter 3-A

The Department Has Not Made Cost-Effective Decisions Regarding Its Energy Audit Software, and Weaknesses in this Software Can Affect Eligibility Determination

The Department requires its WAP subgrantees to use a specific energy audit software called Easy Audit, but it has not made cost-effective decisions regarding this software. In addition, Easy Audit has weaknesses that could lead to incorrect decisions regarding program eligibility determination.

Although Free Energy Audit Software Is Available, the Department Paid a Vendor \$232,000 to Develop Energy Audit Software and Is Spending an Additional \$240,000 to Upgrade that Software

The U.S. Department of Energy has developed an energy audit software application that it makes available to states at no charge. However, the Department does not use this software but uses another software package called Easy Audit instead.

The Department has paid approximately \$232,000 to the Easy Audit vendor since 1995. Although the Department paid for the development of Easy Audit, it does not own the source code for this software. Instead, the vendor owns it and can sell it to other states.

While it is not a specific requirement that an agency own the source code for a software application it paid to develop, it is a good policy for an agency to do so.

The Department also is paying \$240,000 to the original developer of Easy Audit to upgrade the software. By not owning the source code for Easy Audit, the Department has effectively limited itself to a sole-source contract for any future upgrades to this software. The original developer would have to only write the code

Energy Audits as Part of the Weatherization Process

The Code of Federal Regulations, Title 10, Chapter 440.21 (c), limits expenditures of federal weatherization money to those measures that an energy audit has shown to be cost-effective, resulting in energy cost savings over the lifetime of the measure(s), discounted to present value, that equal or exceed the cost of materials, installation, and supervision.

to upgrade the software, but any independent developer would have to start from the beginning and re-create the software before upgrading it.

Weaknesses in the Department's Energy Audit Software Limit Its Reliability and Effectiveness

The U.S. Department of Energy approved the Department's use of Easy Audit, but with several restrictions. These restrictions limit the use of Easy Audit to single-family dwellings and small multi-family dwellings. The U.S. Department of Energy also identified inaccuracies in the way Easy Audit computes several values. These values could lead to incorrect decisions regarding which weatherization services, if any, should be performed.

We also identified other vulnerabilities in Easy Audit that limit its reliability and effectiveness. It is unclear whether the Easy Audit upgrade the Department has contracted for will address these weaknesses:

- The Department cannot ensure that the dwellings the subgrantees weatherized were eligible to receive weatherization services because (1) electronic versions of the energy audit files that Easy Audit produces are not always accessible and (2) the hard copies of these files do not display all the information necessary to determine which weatherization measures to provide.
- Easy Audit uses default numbers for some costs and efficiency ratios that could lead to incorrect decisions regarding program eligibility determination and whether to perform certain weatherization services.

Recommendation

The Department should conduct and document a thorough cost-benefit analysis to determine which energy audit software—the free federal software or Easy Audit—is the best and most cost-effective energy audit software to use in the WAP program. This analysis should consider the costs associated with addressing all federal restrictions on the Department's use of Easy Audit, as well as consideration of the following:

- Upgrading Easy Audit to ensure that (1) electronic energy audit files are accessible or (2) the hard-copy printouts display enough of the data that subgrantees input so that monitors can verify that subgrantees input the right prices and costs into the software. This will enable monitors to trace the data inputs from the testing document to the Easy Audit electronic file or the hard-copy printout.
- Removing cost and efficiency ratio default numbers from Easy Audit so that subgrantees would be required to input actual numbers for key measurements.
- Adding edit checks to Easy Audit to verify that the cost and efficiency ratios entered are within acceptable ranges.

Certain Information Technology Weaknesses at the Department Limit the Security and Integrity of Information

We identified IT weaknesses that limit the Department's ability to rely on the data in its information systems. Some contract signatures are missing from contracts stored electronically, the Department lacks an alternative site agreement, information is not consistently updated in certain information systems, and information in the Emergency Shelter Grant Program's monitoring tracking system is not accurate.

Genesis Does Not Consistently Maintain Electronic Signatures on Electronic Contracts to Provide Program Services

We tested for electronic signatures on 12 electronic contracts totaling \$10 million. Subgrantee signatures were missing from all of these 12 contracts, and the Department's executive director's signature was missing from 4 of them. The Department does not maintain hard copies of the contracts that it maintains electronically. The absence of a valid signature could make it more difficult for the Department to hold a subgrantee accountable for adhering to the terms of the contract.

The Department's Use of Electronic Contracts

The Department uses electronic contracts for three of the programs we audited:

- Weatherization Assistance Program
- Comprehensive Energy Assistance Program
- Community Services Block Grant

The Department Lacks an Alternative Site Agreement to Run Its Software Applications in the Event of a Disaster

Although the Department maintains backup tapes of its software applications and program data, it does not have an alternative site agreement through which it would have hardware to run its applications in the event of a disaster. The Texas Administrative Code, Title 1, Section 202.6, requires state agencies to plan for a disaster so that the effects will be minimized and agencies will "be able to either maintain or quickly resume mission-critical functions."

Controls to Ensure the Consistency of Data in Genesis and the Department's Internal Accounting System Are Not Adequate

Genesis (the Department's automated system that stores financial and performance information for programs) contains inaccurate data. This is because Department users change the information in the Client Server Accounting System (CSAS, the Department's internal accounting system) but are not required to make the same changes to the information in Genesis.

Information in the ESGP Monitoring Tracking System Is Not Accurate

The Department's tracking data for its ESGP monitoring visits is not accurate. We found that this data erroneously specified that the Department had conducted four ESGP monitoring visits that it had not actually conducted. The four associated grant recipients received a total of \$340,185 in 2002.

Recommendations

The Department should:

- Ensure that it has valid contracts with subgrantees by restoring missing electronic contract signatures or by obtaining ratifying signatures for its current contracts. In addition, the Department should monitor the maintenance of these signatures and ensure that this problem will not recur in the new central database system. The maintenance of these signatures should be tested before the new central database system is considered complete.
- Enter into an alternative site agreement through which it would have the necessary hardware to run its applications in the event of a disaster. Because full implementation of the new central database system will not be complete until August 2005, the alternative site agreement should be able to run applications in the Department's existing system, as well as applications in the Department's new central database system.
- Ensure that decisions are made based on accurate information. The Department should duplicate in Genesis any changes it makes in CSAS. In addition, the Department should implement a reconciliation process between Genesis and CSAS.
- Ensure that the information in its ESGP monitoring tracking system is accurate.

Chapter 3-C

Information Technology Weaknesses at Subgrantees Limit the Department's Ability to Safeguard Information

The Department requires subgrantees to maintain complete and accurate financial and performance data. However, it does not monitor subgrantees' controls or provide subgrantees with technical assistance regarding the adequacy of controls over information that they maintain electronically.

We noted that some subgrantees' IT controls are not always adequate to ensure that the information they report is safeguarded. For example:

- The accountant for one ESGP grant recipient reported that she maintained the grant recipient's accounting information on a computer at her residence and performed monthly backups.
- One subgrantee backed up its client tracking system files regularly, but it physically stored the backup disk next to the computer. Therefore, a fire or other physical disaster would have destroyed both the current data on the computer and the backup disk.

We did not observe any problems that occurred because of these two issues. However, both issues increase the risk that information could be improperly accessed or destroyed. Therefore, the Department would not be able to rely on the accuracy of the reports that the subgrantees submit.

Recommendations

The Department should:

- Provide subgrantees with technical assistance regarding IT system controls to ensure that subgrantees maintain the integrity of and adequately safeguard information.
- Monitor IT controls at subgrantees to ensure that they maintain the integrity of and adequately safeguard information.

Does the Department disburse funds according to program objectives and spend all available funds to maximize service delivery?

The Department generally disburses funds according to the objectives of each of the programs we audited. However, the Department has not ensured that WAP subgrantees target weatherization services to priority populations that the federal government has established. In addition, the Department lacks a policy to preclude subgrantees from approving their own ESGP grant awards.

The CSBG, ESGP, CEAP, and WAP programs generally spend all available funds and do not lapse funds. However, as discussed in Chapter 2-A, the Department reports that it did not spend \$830,000 (9 percent) of its federal Section 8 budget by the end of program year 2002.

Chapter 4-A

The Department Does Not Ensure that WAP Subgrantees Target Weatherization Services to Established Priority Populations

The Department does not ensure that WAP subgrantees target weatherization services to the priority populations that the U.S. Department of Energy, one of the program's funding sources, has established (see text box).

Subgrantees submit monthly reports on how many elderly individuals, disabled individuals, and families with children have received weatherization services. However, reporting this information does not ensure that subgrantees have actually targeted the priority populations. For example, one subgrantee considered only income eligibility in the WAP application approval process and provided services strictly on a first come, first serve basis.

In addition, although the Department's annual state weatherization plan specifies that it will give priority to the federal priority populations, its contracts with subgrantees do not list two priority populations—high residential energy users and households with a high energy burden. The Department does not monitor to ensure that its subgrantees are indeed targeting priority populations.

Recommendations

The Department should:

- Ensure that priority populations are given priority to WAP services.
- Ensure that the priority populations specified in its contracts with WAP subgrantees are consistent with the priority populations established by the federal government.

Weatherization Priority Populations for U.S. Department of Energy Funds

Prior to the expenditure of any grant funds, each grantee shall develop, publish, and implement procedures to ensure that priority is given to identifying and providing assistance to:

- Elderly persons
- Persons with disabilities
- Families with children
- High residential energy users
- Households with a high energy burden.

Source: Code of Federal Regulations, Title 10, Section 440.16.

The Department Lacks a Policy to Preclude ESGP Subgrantees from Approving Their Own Grant Awards

The Department lacks a policy to preclude subgrantees from approving their own ESGP grant awards. As a result, one ESGP grant recipient both received ESGP funds and served on the Department's review committee to award ESGP funds. The Department awarded this grant recipient \$40,000 in fiscal year 2002. Although the Department asserts that this grant recipient did not review its own application, the Department did not maintain adequate documentation to support this assertion.

Recommendation

The Department should develop and implement policies and procedures to preclude ESGP grant recipients from serving on the team that reviews their own applications and retain sufficient documentation to demonstrate that ESGP grant recipients do not review their own applications for funds.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

We audited the Weatherization Assistance Program (WAP), Section 8 Housing Choice Voucher (Section 8) Program, Comprehensive Energy Assistance Program (CEAP), Community Services Block Grant (CSBG), and Emergency Shelter Grant Program (ESGP) at the Department of Housing and Community Affairs (Department). For each of the five programs we audited, our objectives were to answer the following questions:

- When funds reach the communities, are subgrantees spending them to provide eligible services to eligible people?
- Does the Department disburse funds according to program objectives?
- Did the Department spend all available funds to maximize service delivery?

As part of the above objectives, we also audited the Department's program monitoring and related information technology.

For the Section 8 program, we had additional objectives to (1) determine whether the Department is addressing the current unmet need for housing and (2) follow up on the Department's noncompliance with Section 8 requirements that the U.S. Department of Housing and Urban Development and an external auditor previously identified.

Scope

Our audit covered the last full program year for each of the five programs and the current program year to date. Generally, that included fiscal years 2001 and 2002.

Methodology

The audit methodology consisted of collecting information, performing selected tests and other procedures, analyzing and evaluating the results against established criteria, and conducting interviews with Department management and staff. We performed audit procedures at the Department and at two ESGP grant recipients, two CEAP and CSBG subgrantees, and three WAP subgrantees.

Information collected to accomplish our objectives included the following:

- Interviews with Department staff, subgrantee staff, and staff at federal funding agencies
- Department policies and procedures
- Reports and correspondence between the Department and its subgrantees

- Monitoring reports and support for monitoring reports
- Performance and expenditure data from Genesis and the Client Server Accounting System (CSAS)
- Information from client files at the Department (for Section 8 work) and from subgrantees (for work on all other programs).
- Department contracts and subgrantee contracts

Procedures and tests conducted included the following:

- Gaining an understanding of the process used by the Department to manage each of the programs
- Comparing reported client income to wages reported by employers to the Texas Workforce Commission
- Testing support for eligibility determinations and denials at five selected subgrantees and for a sample of recent Section 8 voucher holders
- Testing the accuracy of performance and financial information subgrantees reported to the Department
- Testing the reliability of the manual interface between CSAS and Genesis
- Recalculating the initial allocation of funds to WAP, CEAP, and CSBG subgrantees
- Reviewing the competitive award process for ESGP grant recipients
- Reviewing monitoring files for a sample of WAP, CEAP, CSBG, and ESGP subgrantees
- Following up on outstanding Section 8 noncompliance issues

Criteria used included the following:

- Code of Federal Regulations and the Federal Register entries governing the programs we audited
- Department rules, policies, procedures manuals, and approved plans
- Other standard audit criteria

Other Information

We conducted fieldwork from July 2002 through December 2002. The audit was conducted in accordance with generally accepted government auditing standards; there were no significant instances of noncompliance with these standards.

The following members of the State Auditor's staff performed the audit work:

- Rachel Cohen, CPA (Project Manager)
- Lisa Collier, CPA
- Sonya Etheridge, CIA, CISA
- Lori Field
- Ruby Garcia, CIA
- Courtney Harrison
- Cesar Saldivar
- Kelly Trish, JD, MPAff
- J. Scott Killingsworth, CIA (Quality Control Reviewer)
- Nick Villalpando, MPA, CPA (Audit Manager)
- Frank Vito, CPA (Audit Director)

Summary of Programs Audited

Summary of Programs Audited		
Program	Program Description, Size, and Source of Funds	Areas in which Auditors Identified Weaknesses
Weatherization Assistance Program (WAP)	<p>WAP provides weatherization assistance such as insulation and weatherstripping to eligible multi-family and single-family dwellings.</p> <p>In the 12-month period ending March 31, 2003, the Department allocated \$22.5 million in WAP funds to subgrantees. Most of the funding for WAP comes from the U.S. Department of Energy and the U.S. Department of Health and Human Services; the remainder comes from the State's System Benefit Fund. We did not audit the Department's expenditures from the System Benefit Fund because this fund was newly established at the time of our audit.</p>	<ul style="list-style-type: none"> ▪ Providing allowable services to eligible people (see Chapter 1) ▪ Disbursing funds according to program objectives (see Chapter 4-A)
Section 8 Housing Choice Voucher (Section 8) Program	<p>The Section 8 Housing Choice Voucher (Section 8) Program provides rental assistance to eligible families. Eligible recipients receive vouchers that they use to pay all or a portion of their rent. Through local operators, the Department offers Section 8 services to smaller counties and cities that do not have their own housing authorities. [Cities and counties that have their own housing authorities can establish their own Section 8 programs directly with the U.S. Department of Housing and Urban Development (HUD).]</p> <p>In the 12-month period ending June 30, 2002, HUD approved the Department's \$9.3 million budget request for the Section 8 program. All the funding for the Section 8 program comes from HUD.</p>	<ul style="list-style-type: none"> ▪ Addressing the unmet need for housing (see Chapters 2-A, 2-B, and 2-C) ▪ Providing allowable services to eligible people (see Chapters 1 and 2-C) ▪ Spending all available funds to maximize service delivery (see Chapters 2-A and 4)
Comprehensive Energy Assistance Program (CEAP)	<p>The CEAP program provides funds to assist eligible individuals in paying their utility bills and other energy-saving services.</p> <p>In the 12-month period ending December 31, 2002, the Department awarded \$31.5 million in assistance through its CEAP program. All the funding for this program comes from the U.S. Department of Health and Human Services.</p>	<ul style="list-style-type: none"> ▪ Providing allowable services to eligible people (see Chapters 1-B and 1-D)
Community Services Block Grant (CSBG)	<p>CSBG funds support a variety of programs designed to assist low-income families and individuals; homeless families and individuals; the elderly; and migrant or seasonal farmworkers.</p> <p>In the 12-month period ending December 31 2002, the Department received \$31 million in CSBG funds from the U.S. Department of Health and Human Services. The Department distributed \$28 million of that amount through subgrantees across the state.</p>	<ul style="list-style-type: none"> ▪ Providing allowable services to eligible people (see Chapter 1-B)
Emergency Shelter Grant Program (ESGP)	<p>ESGP is a competitive grant program that provides funds to cities, counties, and nonprofit organizations for activities relating to shelters and services for homeless persons and the prevention of homelessness.</p> <p>In the 12-month period ending August 31, 2002, the Department provided \$4.3 million in ESGP grants to 74 projects. All of the funding for this program comes from the U.S. Department of Housing and Urban Development.</p>	<ul style="list-style-type: none"> ▪ Disbursing funds according to program objectives (see Chapter 4-B)

Source for program description, size, and source of funds: Unaudited data from the Department of Housing and Community Affairs

Status of Prior Section 8 Noncompliance Issues Identified in 2000

Although it has made some progress, the Department has not fully corrected several Section 8 noncompliance issues. These issues were identified in two separate reviews conducted in 2000: HUD conducted a management review, and it also required the Department to hire an external auditor to conduct a program-specific audit of Section 8. Both reports covered the same time period and found similar problems. Continued noncompliance could put the Department at risk of losing its Section 8 funding. The following table details the status of each prior issue that we reviewed.

Status of Prior Section 8 Noncompliance Issues Identified in 2000				
Issue Area	Issue Description	Corrective Action Recommended	HUD or External Audit Status Determination	State Auditor's Office Assessment of the Department's Current Status and Recommendations
Waiting list administration	<p>HUD found that the Department was not including all information required by regulation on its waiting lists.</p> <p>The external auditor found that the Department could not provide records required to document that applicants whose names reached the top of the waiting lists were given the opportunity to participate in the program and were selected properly.</p>	<p>HUD required that the Department maintain the waiting lists and that the waiting lists include all required data.</p> <p>The external auditor recommended that the Department maintain documentation (waiting lists and notification letters) sufficient to show that applicants were properly contacted and/or admitted into the program.</p>	<p>The Department submitted a revised waiting list with all required information. HUD closed this issue on February 20, 2001, subject to a follow-up visit.</p> <p>The external auditor was unable to obtain sufficient documentation to test waiting list management.</p>	<p>The Department's waiting lists include blanks for the required data elements cited by an earlier HUD audit. However, we found 28 instances in which blanks had not been filled on files that were prepared after February 20, 2001. These discrepancies occurred at six different local operators. Additionally, 3 (15 percent) of 20 files we tested did not contain the notification letter as the external auditor had recommended. (These 20 files were prepared after HUD had issued its report.) The Department's Administrative Plan also requires that the notification letter be in the tenant file.</p>
Determination of rent reasonableness	<p>HUD found that the Department was not properly determining the reasonableness of rent. The only data the Department considered in determining rent reasonableness was the address and the rents for two properties.</p>	<p>HUD required the Department to develop a written method for assessing rent reasonableness using three comparable properties and considering all factors the Department is required to consider by law.</p>	<p>HUD closed this issue based on written procedures the Department submitted on April 23, 2001.</p>	<p>HUD requires the Department to ensure the rent charged to a program participant is similar to (1) other unassisted units in the marketplace and (2) other unassisted units on the premises.</p> <p>The 20 files we reviewed contained Certification of Rent Reasonableness forms. (These 20 files were prepared after HUD had issued its report.)</p>

Status of Prior Section 8 Noncompliance Issues Identified in 2000

Issue Area	Issue Description	Corrective Action Recommended	HUD or External Audit Status Determination	State Auditor's Office Assessment of the Department's Current Status and Recommendations
	<p>The external auditor found that the Department did not follow its own rent reasonableness determination procedures. For example, the Department used two-bedroom units as comparison units for three-bedroom units.</p>	<p>The external auditor recommended that the Department implement procedures to properly document its rent reasonableness determinations and follow its own policies.</p>	<p>In its corrective action plan, the Department stated that it implemented written procedures to ensure that rent paid to property owners is reasonable.</p>	<p>However, two of these forms did not properly document a comparison of the rental unit to three comparable properties as required by HUD. In one of these cases, it appears that the Department took reasonable steps to find three comparable properties but failed. In addition, one tenant was authorized for housing for which he had failed the affordability test.</p>
<p>Documentation of required information</p>	<p>HUD found that tenant files were incomplete or lacked critical information. Specifically, the files lacked documentation of:</p> <ul style="list-style-type: none"> ▪ Citizenship or immigration status. ▪ Third-party income verification. ▪ Proper calculation of total tenant payment and rent to owner. ▪ Verification of family size and composition. ▪ Proper rent reasonableness and rent adjustments. <p>The external auditor found that the Department maintained incomplete or inaccurate total tenant payment and housing assistance payment computation worksheets in the files. It also found that the Department did not maintain required documentation for the initial determination of eligibility and program admission.</p>	<p>HUD required the Department to implement a process to ensure that all files include proper documents.</p> <p>HUD required the Department to correct the files for the sample items that HUD reviewed.</p> <p>The external auditor recommended that the Department develop procedures to ensure that worksheets are reviewed for accuracy and that the total family contribution is affordable for the tenant. It also recommended that the Department develop and implement a review process to ensure that program requirements and procedures followed regarding the completion of applications, release forms, and privacy act notices.</p>	<p>HUD closed this issue on February 20, 2001, subject to a follow-up visit, based on documentation provided by the Department. This documentation included a copy of a new procedure for the review and approval of tenant files and a checklist to be used to ensure that all required documents are maintained in each resident's file.</p> <p>The Department asserted that it had made corrections in its files.</p> <p>In its corrective action plan, the Department stated that it had implemented the recommended review procedures.</p>	<p>It appears that the Department has corrected most of the problems in old files regarding the five areas of documentation that HUD listed as absent. All of the new files have the documentation that was specifically mentioned in the HUD report.</p> <p>Five (25 percent) of the 20 files (prepared after HUD's report) we tested did not contain at least one of the documents required by HUD or recommended by the external auditor.</p>

Status of Prior Section 8 Noncompliance Issues Identified in 2000

Issue Area	Issue Description	Corrective Action Recommended	HUD or External Audit Status Determination	State Auditor's Office Assessment of the Department's Current Status and Recommendations
Use of the correct lease addendum forms	<p>HUD found that the Department was not using the most current version of the addendums.</p> <p>The external auditor found that the Department was using outdated addendum forms.</p>	<p>HUD directed the Department to use the correct forms and specified that all files must be corrected before March 2001.</p> <p>The external auditor recommended that the Department develop a review process to ensure that it uses the correct forms.</p>	<p>HUD closed this issue on July 10, 2001, based on evidence the Department provided indicating that it was identifying cases in which the wrong form was used and correcting them.</p> <p>In its corrective action plan, the Department stated that it had implemented the recommended review process.</p>	<p>In our sample of 20 files (prepared after HUD issued its report), we found one instance in which the Department used the incorrect lease addendum.</p>
Quality control inspections	<p>HUD concluded that the Department had not conducted the majority of supervisory reviews of housing inspections to ensure quality control as required by federal regulations. There were no records to document that these inspections occurred.</p> <p>The external auditor found that the Department was unable to provide sufficient documentation for required annual quality control reinspections. It also could not support that required repairs on failed units had been completed within the allowable time.</p>	<p>HUD required the Department to implement a plan to perform supervisory quality control inspections on a representative sample of housing inspections and keep a log to document the results of those reviews.</p> <p>The external auditor recommended that the Department follow all procedures in the administrative plan for inspections, implement procedures regarding follow-ups for failed units, and maintain documentation to support these procedures.</p>	<p>HUD closed this issue on July 10, 2001, based on the Department's certification that it had inspected 49 units during fiscal year 2001 and a list of the addresses of the inspected units that the Department provided.</p> <p>The external auditor was unable to perform any tests of the housing quality control reinspections or on the failed inspections.</p>	<p>We found evidence that the Department is performing the required reinspections and is sufficiently documenting them.</p>
Implementation of a family self-sufficiency program	<p>HUD found that the Department was not operating a family self-sufficiency program as required. The Department has not had a valid exemption for this provision in place since 1997.</p>	<p>HUD required the Department to implement a self-sufficiency program as required or to request an exception. HUD stated that it is essential that the Department take immediate action to clear this finding.</p>	<p>The issue remains open. The Department must either submit a plan to HUD or submit an exemption request.</p>	<p>The Department has indicated that it is beginning to address this finding.</p>

Status of Prior Section 8 Noncompliance Issues Identified in 2000

Issue Area	Issue Description	Corrective Action Recommended	HUD or External Audit Status Determination	State Auditor's Office Assessment of the Department's Current Status and Recommendations
Annual re-examination of family income	<p>HUD found that the Department was not conducting the required annual re-examinations of family income at least every 12 months.</p> <p>The external auditor found that 6 of 40 files tested lacked income verification documentation or contained incomplete income verification documentation.</p>	<p>HUD required the Department to establish a quality control method to verify that annual re-examinations are completed at least every 12 months for all participating families. Additionally, it required the Department to submit a schedule of all family re-examinations that indicates the date of the last re-examination. HUD also required the Department to certify that all Section 8 participants' re-examinations were complete before March 1, 2001.</p> <p>The external auditor recommended that the Department develop a participant file review system to ensure that income verification is proper, complete, and performed at least annually.</p>	<p>HUD closed this issue on July 10, 2001, after the Department submitted the schedule and certification that HUD required.</p> <p>In its corrective action plan, the Department stated that it implemented the recommended review.</p>	<p>Of the 20 files we examined (prepared after HUD issued its report), 13 should have undergone the annual examination of family income. However, the Department had not performed this work for 3 (23 percent) of these 13 files.</p>
Supervisory and review process	<p>The external auditor found that many files it tested lacked required documentation or contained incomplete documentation.</p> <p>The external auditor found that the Department allowed overpayments to be made. The auditor found \$614 (2.1 percent) in overpayments out of the \$28,809 in payments tested.</p>	<p>The external auditor recommended that the Department develop a procedure for the review of tenant files and assign the task of reviewing these files to a Section 8 housing staff member in a supervisory position.</p> <p>The external auditor recommended that the Department develop a review process to ensure that payments are correct and supported by proper documentation.</p>	<p>The Department reports that it has implemented a new procedure whereby all files are reviewed and all calculations are checked to ensure proper and complete documentation.</p> <p>In its corrective action plan, the Department stated that it implemented the recommended review.</p>	<p>The Department has implemented written procedures for a supervisory review of tenant files.</p> <p>We found evidence of some supervisory review in the 20 files we reviewed (prepared after HUD issued its report). This evidence consisted of completed document checklists in all 20 files and evidence of a review of calculations on the Housing Choice Voucher (found in 19 of the 20 files).</p> <p>However, 25 percent of these files did not contain at least one required document.</p>

Management's Responses



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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June 25, 2003

Rachael Cohen, CPA, Project Manager
State Auditor's Office
P.O. Box 12067
1501 N. Congress Avenue
Austin, Texas 78711-2067

Dear Ms. Cohen:

We are in receipt of the State Auditor's audit report, *Selected Assistance Programs at the Department of Housing and Community Affairs*, and welcome your suggestions for improving the administration of our programs and internal operating procedures. Below are management's responses to each of the recommendations made.

Chapter 1-A

Eligibility Issues Unique to the Weatherization of Multi-Family Dwellings Increase the Risk that Subgrantees Could Provide Unallowable Services to Ineligible People

Management Response:

- The Department will conduct a review of all multi-family dwellings weatherized in fiscal years 2001 and 2002 to verify that all buildings that received weatherization services were eligible. Staff will sample income documentation for eligible units within each building weatherized. If the sampling results indicate that dwellings were not eligible, the Department will recover the amounts that it paid to subgrantees for these services from the subgrantees.
- The Department will develop, communicate, and enforce policies and procedures to ensure that it achieves the following outcomes for the Weatherization Assistance Program (WAP) program:
 - Each building in a multi-family dwelling has at least the required percentage of income-eligible units.
 - Subgrantees do not spend more than the maximum amount of federal funds allowed to weatherize individual units in a building in a multi-family dwelling.
 - Subgrantees have appropriately ensured that, before the weatherization work begins, (1) the applicant and the multi-family dwelling unit are eligible and (2) all required documentation is completed.
 - The owner of the multi-family dwelling provides the required assurance that the low-income residents will not be subject to rent increases as a result of receiving weatherization services.

The Department is in the process of modifying the EASY Audit which will address many of these issues. The anticipated completion date for modification and testing of EASY Audit is October 1, 2003 and the associated costs are being borne by the Department of Energy. Modifications to the EASY Audit will

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provide documentation of income eligibility for every single-family unit and every multi-family building identified for weatherization and will ensure that all units and buildings will be documented as income eligible prior to being weatherized. With multi-family buildings, the audit will perform the calculations to determine if a building meets the 50 percent or 66 percent rule, as appropriate. If the building fails, the system will not run an audit. Modification to the EASY Audit will contain edit checks that will not allow audits to be run on ineligible buildings. The EASY Audit revisions will facilitate tracking the amounts expended per unit and per building.

In addition to the modification of the EASY Audit, the Department is developing an issuance on weatherizing multi-family structures. The new multi-family weatherization issuance will provide additional guidance on weatherizing multi-family buildings. The Department has provided a draft copy of this issuance to subgrantees for review and comment.

Modification of the EASY Audit will track federal funds and Department and/or non-federal leveraged funds expended to weatherize every single-family unit, every multi-family-unit, and every building in a multi-family project. The modified EASY Audit will notify the subgrantee and the Department if the estimated cost exceeds the maximum federal funds allowed per unit or per building. On an annual basis, the Department will be able to determine the amount of funds actually expended on multi-family units versus single-family units.

- *Modifications to EASY Audit will provide the amount of program funds that have been spent to weatherize multi-family units and single-family dwellings upon completion of each individual unit, building and project. In instances when the maximum funds per unit are exceeded without an approved waiver, the Department seeks reimbursement from the subgrantees.*

Position Responsible for Implementation: Manager, Energy Assistance Section

Target Date for Completion: January 1, 2004

Chapter 1-B

Weaknesses in the Process that Four Programs Use to Determine Income Eligibility Increase the Risk that Ineligible Applicants Could Receive Program Services

Management Response:

The Department will change its procedure for annualizing income to determine eligibility for WAP, Comprehensive Energy Assistance Program (CEAP), and Community Services Block Grant (CSBG) by requiring subgrantees/contractors to obtain income information for the 90 days prior to application and multiplying that figure by 4. This method of annualizing income will provide better assurance that the Department is not providing services to people whose household income levels exceed the income eligibility threshold for these three programs.

Positions Responsible for Implementation: Managers, Energy Assistance and Community Services Sections

Target Date for Completion: January 1, 2004

Chapter 1-C
The Department Does Not Ensure That WAP Subgrantees Provide Allowable, Cost-Effective Services

Management Response:

- *To better ensure that the Department's WAP subgrantees provide allowable, cost-effective services, the Department is modifying EASY Audit. These modifications, with on-site reviews, will help ensure that:*
 - *WAP subgrantees consistently document their decision criteria for providing weatherization services to WAP applicants.*
 - *WAP subgrantees provide services only to applicants who meet the program's eligibility criteria.*
 - *WAP subgrantees obtain residents' signatures on final inspection forms to verify that the weatherization work was actually performed.*
- *Because the energy audits are a critical factor in the determination of which services will be performed, the Department will enhance its monitoring procedures to ensure that subgrantees:*
 - *Input adequate data into the energy audit software.*
 - *Conduct energy audits before providing weatherization services.*
 - *Perform separate energy audits for each unit to be weatherized.*
 - *Allow only qualified individuals to conduct the energy audits. To be considered qualified to conduct an energy audit, individuals will be required to attend Department-provided training in the conduct of energy audits and the use of EASY Audit.*
- *The Department will provide additional guidance to subgrantees to ensure that subgrantees maintain current contracts with weatherization contractors and pay contractors reasonable prices. As previously mentioned, the Department is developing an issuance to address these issues for weatherizing multi-family units. In addition, the Department has developed a procurement issuance in compliance with federal procurement requirements. This issuance requires that a subgrantee conducts a material cost analysis survey of their service area, competitively solicits for labor and materials, and enters into a contract(s) with the winner of the solicitation. The issuance also requires specific contract provisions that must be included in the subgrantee contracts with weatherization service providers.*

The Department annually monitors for compliance with these program issuances. The Department will review the Procurement Issuance and amend the issuance to clarify all requirements in regard to cost and contract provisions. If payments are based on costs, subgrantees will be required to verify the accuracy of contractor's claimed costs. If payments are based on a flat rate, the subgrantees' contracts and contractor invoices will be required to include clear statements of work so that the flat rate can be justified. The Department will establish a procurement file for each WAP subgrantee and require subgrantees to provide copies of their most current solicitation for services and contracts. The Department also plans to provide mandatory training workshops on procurement for both CEAP and WAP subgrantees at the Energy Conference to be held in Austin in June 2003.

Position Responsible for Implementation: Manager, Energy Assistance Section
Target Dates for Completion: Issuance and completion of EASY Audit modification and testing – October 1, 2003; Complete training on use of EASY Audit – January 1, 2004.

Chapter 1-D

The Department's Monitoring of WAP, CEAP, and CSBG Subgrantees Does Not Ensure That Subgrantees Provide Allowable Services To Eligible People

Management Response:

The Department staff monitors energy assistance programs annually to ensure compliance with program rules and regulations. The Department's WAP Monitors complete the monitoring instrument on site and review the findings with the Executive Director of the agency. The Monitors leave a copy of the signed and completed instrument with the agency, followed within 30 days with a written monitoring report, for which a written response is required. The report and findings are based on the sample of the documents reviewed and the weatherized units inspected. The monitoring procedures routinely include, but are not limited to, reviews of fiscal records, support documentation, general ledgers, procurement files, agency policies and procedures and client files, and, in weatherization, inspection of units weatherized.

In accordance with federal CSBG guidelines, Department staff monitors CSBG contactors at least once every three years using the Department's risk-assessment process. Staff completes the comprehensive CSBG monitoring instrument and discusses the potential findings with the Executive Director of the agency. Staff provides the agency with a written report within 30 days and the agency must provide a response within 30 days. Staff CSBG review includes, but is not limited to, fiscal records, client eligibility support documentation, agency policies and procedures, and board composition and minutes.

The Department reviews the response from the agency to ensure its adequacy, such as additional documentation that might have been requested. When an agency provides "assurance" that they have implemented the requested correction, the corrective action can frequently be verified only with a return visit.

The Department uses standardized monitoring instruments for WAP, CEAP and CSBG. The instruments are reviewed annually to incorporate any identified changes that may be needed to improve the monitoring efforts.

To better ensure that the Department's monitoring function provides adequate assurance that program weaknesses are detected and corrected, the Department:

- *Will not close issues it identifies during monitoring at WAP, CEAP, and CSBG subgrantees until the Department has verified that the issues have been corrected. For future monitoring reports, the Department will delay closing unverified responses until the next monitoring visit is made. During that subsequent visit, staff will verify that subgrantee/contractor has implemented required actions.*
- *Will provide copies of its WAP, CEAP, and CSBG monitoring reports to subgrantees' board chairs to ensure agency board members are aware of the monitoring issues and that subgrantees address issues identified during monitoring reviews. Effective November 26, 2002, the Department implemented a change in procedure and began providing a copy of the monitoring reports for Community Affairs programs to board chairs as well as to the Executive Director of the Division's subgrantees/contractors.*
- *Will review its WAP monitoring instrument to ensure that monitors review a sufficient amount of information to support their conclusions. WAP monitors will document which contracts, files, and other documentation they sampled and reviewed to make their conclusions. Documentation of reviewed materials will be included in the monitoring file.*

*Positions Responsible for Implementation: Managers, Energy Assistance and Community Services Sections
Target Date for Completion: September 1, 2003*

Chapter 2-A
The Department is Not Addressing the Unmet Need For Housing As It Relates to the Section 8 Program

Management Response:

The Department will coordinate with HUD to explore methods to increase the percentage of Section 8 vouchers it awards. The Department has requested HUD to engage in a dialogue with the Department to discuss, among other things, permission to transfer vouchers from one Section 8 jurisdiction to another. As of May 31, 2003, the Department has awarded 96% of the statewide housing vouchers, exceeding the HUD required lease up rate of 95%, by reallocating vouchers and adding a new city within the Ft. Worth Section 8 jurisdiction. The average lease up percentage for all Section 8 programs in the state for fiscal year 2003 as of May 31 is 92%.

Position Responsible for Implementation: Manager, Section 8
Target Date for Completion: September 1, 2003

Chapter 2-B
The Department Cannot Ensure that Local Operators Award Section 8 Vouchers to Families in the Required Order

Management Response:

As of May 1, 2003, the Department has implemented a new waiting list procedure that will allow the Department to verify whether local housing assistance program (HAP) operators award vouchers to the individuals who have waited the longest to receive them. The Department now maintains the waiting lists for all its Section 8 local HAP operators on an Excel spreadsheet. The Regional Coordinator inputs applicant information in the Excel spreadsheet and notifies applicants on a first-come, first-serve basis, in writing, of the date and time to meet with the local HAP operator for completion of eligibility paperwork.

Position Responsible for Implementation: Manager, Section 8
Target Date for Completion: Completed

Chapter 2-C
Although the Department Has Made Some Progress, It has not Fully Corrected Several Section 8 Noncompliance Issues Identified by HUD and an External Auditor

Management Response:

To fully correct previously noted Section 8 noncompliance issues, the Department:

- Now maintains the waiting lists for all program operators and ensures that all required elements on Section 8 waiting lists are complete.
- Developed a quality control checklist form that is used in the contract review process to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that vouchers may be available to them.
- Revised the contract review process to ensure that Section 8 rent reasonableness is adequately tested and documented.
- Disposed of all old versions of the Section 8 lease addendum form which are no longer available to staff or local operators, and reviewed Section 8 files to ensure that they do not include incorrect or obsolete forms.
- Has submitted a Section 8 family self-sufficiency exception request to the HUD office, which is pending response from HUD. The Department is exploring alternatives in the event HUD does not approve the exemption request.

- *Implemented an annual file review to re-examine family income for each Section 8 participant.*
- *Implemented changes in procedures that will ensure that all required documents are in Section 8 files. The Department developed and currently is using a quality control checklist form to ensure that Section 8 tenant files contain all required documents, including notification letters informing applicants that vouchers may be available to them. The form has been added to the contract review process. The form includes review and verification of income, allowances for expenses, utility allowances, tenant rent calculations, unit inspection, and rent reasonableness. Also, for new admissions, the Department has implemented a review of income limits, selection from waiting list, letter of notification, and voucher certification. The Regional Coordinator will complete this form for new admissions, annual renewals, interim rent adjustments, and moves to other units. Upon completion, the Regional Coordinator places the form in the contract file for final review and approval by the Section 8 Coordinator/Manager who will conduct a detailed review.*

*Position Responsible for Implementation: Manager, Section 8
Target Date for Completion: Completed*

Chapter 3-A

The Department Has Not Made Cost-Effective Decisions Regarding its Energy Audit Software, and Weaknesses in This Software Can Affect Eligibility Determination

Management Response:

The Department believes that it conducted a thorough cost-benefit analysis to determine which energy audit software was the best and most cost-effective energy audit software to use in the WAP program. In October 1993, the U.S. DOE made available to states an automated energy audit for use in determining measures to be installed on single-family dwellings. The audit severely limited the analysis of air infiltration and did not contain "cooling measures" as an option.

The Department's staff and some of its subgrantees were trained in the use of this audit, the National Energy Audit (NEAT). As a result of this training, the Department determined that NEAT could not effectively be used in weatherizing housing stock in Texas, because air infiltration is a key issue with housing in Texas, and no cooling measures could be evaluated using NEAT. During this time, DOE recognized that NEAT may, in fact, not work for all states and DOE made funds available and directed states to pursue development of "alternative audits." Accordingly, the "cost" of not developing alternative audit software was using ineffective software.

Prior to conducting a competitive solicitation to select a vendor to develop an alternative audit, the Department convened a series of meetings with subgrantees and various energy experts to determine the feasibility of this group developing an alternative audit. The Department and the energy groups decided that the most efficient and cost-effective course of action would be to obtain an expert in software development to work with state staff to develop an alternative audit. While there would be a cost associated with developing the software, the benefit would be an audit software application that would be effective in assessing the cost/benefit of weatherizing dwellings, a prerequisite to ensuring compliance with federal regulations and program effectiveness. Subgrantee staff, local energy experts, and DOE staff were consulted and participated in this development process.

In March 1995, DOE approved EASY Audit for Texas for use on single-family structures. The Department phased-in the use of the audit and full implementation of EASY Audit occurred in 1997. The Department continued to consult with EASY Audit vendor, CRN Applications, and DOE to improve the audit and make modifications necessary for use with multi-family units and mobile homes. In 1997, EASY Audit II was approved for multi-family and mobile home weatherization. Additional modifications and DOE reviews on EASY Audit were completed that would detail interaction factors with the audit. The Department is currently working to convert EASY Audit II to EASY Audit III, which will be a web-based application.

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EASY Audit III incorporates much of the client application and eligibility determination process for single- and multi-family units, enables tracking of expenditures, removes input defaults, and installs acceptable ranges of response for efficiency of appliances and acceptable R-values for various measures.

Please note that the national NEAT audit is approved only for use in single-family units. DOE has had to develop a separate audit application for multi-family weatherization and is still working on audit software acceptable for use in mobile homes.

When work on EASY Audit III is completed in September 2003, all audits completed on the system will be web-based with actual audit results stored and accessible in the Department's central database, once the database is fully developed.

The Department engaged in, and continues to be engaged in, an exhaustive, step-by-step analysis of energy audit options for Texas. The Department believes that EASY Audit is by far the most cost-effective and efficient energy savings audit option for Texas. The conversion of EASY Audit II to the web-based EASY Audit III will address the recommendations in Chapter 3-A, considering the DOE NEAT option is not effective for use in many areas of Texas.

*Position Responsible for Implementation: Manager, Energy Assistance Section
Target Date for Completion: October 1, 2003*

**Chapter 3-B
Certain Information Technology Weaknesses at the Department Limit the Security and Integrity of Information**

Management Response:

- *The Department will ensure that it has valid contracts with subgrantees by contacting affected subgrantees, communicating the problem, and having appropriate TDHCA staff and subgrantees electronically re-sign these contracts. Since January 2003, TDHCA technical staff has established and monitored an automated, scheduled report on electronic signatures for all Community Affairs programs to ensure additional electronic signatures are not deleted from existing or new contracts.*
- *TDHCA maintains a business continuity plan (updated in October 2002) to prepare for the effects of a disaster and to comply with TAC, Title 1, Section 202.6; however, the costs of having a dedicated, alternative site agreement are prohibitive. TDHCA's capital budget for fiscal years 2004-2005 totals \$1,080,000; the agency's 2002-2003 capital budget totaled \$2,260,760. Requirements for new and continued IT projects and services have not decreased proportionally to the decrease in the capital budget.*

Despite the capital budget reduction, TDHCA has set aside \$15,000 each year to increase its disaster preparedness for fiscal years 2004-2005. During the next biennium, the agency plans to acquire, at a minimum, an insurance policy to ensure a set turnaround time on selected network hardware. Using its offsite backup tapes, TDHCA would have the ability to restore mission-critical systems, according to the priority sequence defined in the agency business continuity plan. In the event of a disaster that destroys the agency's server room but not the entire headquarters building, TDHCA would be able to resume mission-critical functions in a reasonable time frame through the combination of an insurance policy and off-site backup tapes.

The agency will continue to explore options for securing an alternative site agreement, as well as identifying funding for such an agreement; however, it is possible that TDHCA will not be able to fully satisfy this audit finding in the next biennium.

- *To ensure that decisions are made based on accurate information, the Department will have the 1) information systems technical staff prepare a briefing for program staff on the details and limits of the automated interface from the Client Service Accounting System (the Department's internal accounting system) to the Genesis Energy Assistance/Community Services contract and payment systems, 2) affected staff specifically identify and document data that is manually maintained in the two systems, and 3) technical staff develop monthly reports to assist program staff in the development of a formal reconciliation process.*
- *The Department has updated its ESGP monitoring tracking system to ensure its accuracy and will develop quality control procedures to ensure its accuracy.*

Positions Responsible for Implementation: Manager, Community Services Section; Director, Information Systems Division

Target Date for Completion: January 1, 2004

Chapter 3-C

Information Technology Weaknesses at Subgrantees Limit The Department's Ability To Safeguard Information

Management Response:

The Department will provide subgrantees with technical assistance regarding IT system controls to ensure that subgrantees maintain the integrity of and adequately safeguard information. By October 2003, TDHCA will publish a document on required IT practices for agency subgrantees on the TDHCA website and will announce the document's publication through standard communication channels with subgrantees. After a specified date for compliance with the IT practices, TDHCA program monitors will include an audit on IT practices as a standard aspect of their site visits.

Positions Responsible for Implementation: Managers, Energy Assistance and Community Services Sections; Director, Information Systems Division

Target Date for Completion: October 31, 2003

Chapter 4-A

The Department Does Not Ensure That WAP Subgrantees Target Weatherization Services to Established Priority Populations

Management Response:

- *The Department will ensure that priority populations are given priority to WAP services. The targeting of the priority populations of: Elderly persons; Persons with disabilities; Families with children (under 6 years of age); High energy users, and Households with high energy burdens will be included in the modified EASY Audit. Each priority group will be assigned points that will be summed and updated regularly to reflect length of time on the waiting list. These points will be used to determine which applicants receive services first unless extenuating circumstances dictate otherwise, e.g. emergency situations.*
- *The WAP contracts will be amended to include all five priority groups to ensure consistency with the priority populations established by the federal government and identified by the state as those populations that should be prioritized.*

Position Responsible for Implementation: Manager, Energy Assistance Section

Target Date for Completion: October 1, 2003

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Chapter 4-B
The Department Lacks a Policy to Preclude ESGP Subgrantees from Approving Their Own Grant Awards

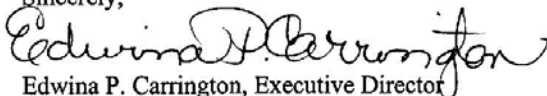
Management Response:

While the ESGP grant recipient discussed in the audit finding served on the review committee, the recipient did not participate in the review of its own application. The review team members that participated in the review initiated the application to document the review process. To provide further assurance that ESGP grant recipients do not serve on the team that reviews their own applications, the Department has developed and implemented a Department standard operating procedure (SOP) to document its established procedures which preclude ESGP grant recipients from serving on a team that reviews their application. The SOP includes conditions that ensure that no organization with a direct interest in ESGP funding decisions for a particular region of the state will participate in the review process. The SOP also includes conditions to ensure that no state or national organization competing for ESGP funds to provide statewide technical assistance shall participate in the review of statewide applications.

*Position Responsible for Implementation: Manager, Community Services Section
Target Date for Completion: Completed*

Please extend the Department's appreciation to the staff performing the audit. They conducted themselves in a professional manner and performed the audit with minimal disruption to our operations. The report and its recommendations provide valuable information for improving the Department's effectiveness in delivering assistance programs as the Department continually seeks opportunities for improvement.

Sincerely,



Edwina P. Carrington, Executive Director

iad/dg

Auditor's Follow-Up Comment

The Department's response does not address our recommendations regarding its WAP program energy audit software. We remain concerned that the Department has not justified the \$472,000 it is spending to develop and upgrade the software, that this software has certain flaws that an upgrade may not correct, and that the Department does not own the software source code. We asked for documentation relating to the cost-benefit analysis the Department's response discusses. However, the Department did not provide any documentation to support this analysis.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Tom Craddick, Speaker of the House, Chair
The Honorable David Dewhurst, Lieutenant Governor, Vice Chair
The Honorable Teel Bivins, Senate Finance Committee
The Honorable Bill Ratliff, Senate State Affairs Committee
The Honorable Talmadge Heflin, House Appropriations Committee
The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Department of Housing and Community Affairs

Mr. Michael E. Jones, Board Chair
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Ms. Elizabeth Anderson, Board Member
Mr. Shadrick Bogany, Board Member
Mr. Vidal Gonzalez, Board Member
Mr. Norberto Salinas, Board Member
Ms. Edwina P. Carrington, Executive Director



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