audit report
OFFICE OF INSPECTOR GENERAL

Issue Date
January 27, 2000
Audit Case Number
00-FW-255-1002

TO: Katie S. Worsham
Director, Community Planning and Development, 6AD

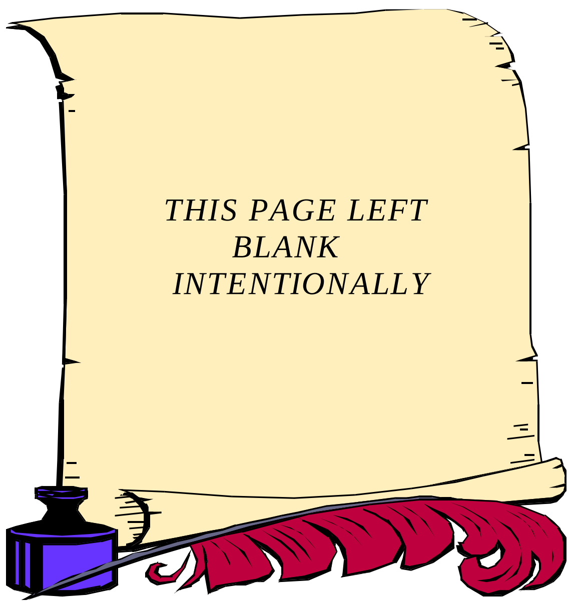
FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: HOME Investment Partnership Program Administrative Costs
Texas Department of Housing and Community Affairs
Austin, Texas

We have completed a limited review of the direct administrative costs of the HOME Investment Partnership Program (HOME Program) administered by the Texas Department of Housing and Community Affairs (TDHCA). We initiated the review after examining an anonymous complaint that we could not substantiate relating to the TDHCA. We identified problems with how the TDHCA supported the use of funds drawn down to cover HOME Program administrative costs. This report contains two findings.

Within 60 days, please give us, for each recommendation in this report, a status report on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

If you or your staff have any questions, please contact Jerry Thompson, Assistant District Inspector General, at (817) 978-9309.


THIS PAGE LEFT
BLANK
INTENTIONALLY

Executive Summary

We have completed an audit of administrative costs for the HOME Investment Partnership Program (HOME Program) of the Texas Department of Housing and Community Affairs (TDHCA). The audit objectives were to determine if the TDHCA: (1) incurred and supported administrative costs it charged to the HOME Program in accordance with program requirements and (2) ensured that administrative costs charged by subrecipients were supported and eligible under the Program.

The TDHCA could not support certain administrative costs charged to the Program.

The TDHCA allocated certain payroll and other direct costs based on budget estimates instead of actual time spent on or benefits received by the HOME Program. These budget based cost allocations were from divisions other than the HOME Program Office for activities that benefited multiple programs. In addition, the TDHCA allocated a portion of the cost of a new client server accounting system without a supportable allocation basis. As a result, the TDHCA lacks support for about $1.26 million of administrative costs it charged to the HOME Program.

The TDHCA did not oversee subrecipients' administrative costs.

The TDHCA did not require its subrecipients to submit necessary documents to support draw downs of funds to cover administrative costs in carrying out HOME Program activities. Also, the TDHCA's monitoring reviews of subrecipient performance looked at programmatic issues but not administrative costs. Consequently, the TDHCA could not support about $408,000 in draw downs for administrative costs of subrecipients we reviewed.

Findings discussed with TDHCA officials.

We provided a draft report to the TDHCA on December 16, 1999, and they issued a response on January 14, 2000. We had an exit conference with TDHCA officials on January 20, 2000. The TDHCA said the report highlights opportunities to improve the administration of the Program which its staff has recognized. TDHCA disagreed that it does not have assurance that administrative costs of the Department charged to the HOME Program were reasonable or appropriate in relation to the benefits received. Also, the TDHCA did not agree its subrecipients received and spent HOME Program funds to administer its programs without required oversight. They stated they recognized the need to improve its documentation standards to clearly demonstrate that expenditures charged or allocated to the HOME Program are allowable and adequately supported. TDHCA officials appeared to be responsive to the recommendations. We summarized the response in the findings and included a full copy of the response as Appendix B.

Table of Contents

Abbreviations

CFR	Code of Federal Regulations
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
HOME Program	HOME Investment Partnerships Program
TDHCA	Texas Department of Housing and Community Affairs
PJ	Participating Jurisdiction

Introduction

Background

The Texas Department of Housing and Community Affairs (TDHCA) receives and administers HUD's HOME Investment Partnership Program (HOME) funds for the State of Texas. The State of Texas receives an annual allocation of HOME funds from HUD and distributes the funds throughout the state. Any unit of Local Government, Public Housing Authority, Community Housing Development Organization, other non-profit and for-profit organization that is not within a participating jurisdiction is eligible to apply for HOME funds through the TDHCA's HOME Program. The TDHCA provides technical assistance and monitoring to all subrecipient administrators of the program to ensure all participants meet and follow the necessary requirements. The TDHCA is governed by a Board composed of nine members, appointed by the Governor with the consent of the Texas Senate, and an Executive Director appointed by the Board. Within the TDHCA, the HOME Investment Partnerships Program Office has responsibility for administering the program. The TDHCA's offices and records are located at 507 Sabine, Austin, Texas.

The HOME Program was created in November 1990 under Title II of the National Affordable Housing Act. Under the HOME Program HUD allocates funds by formula among eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multiyear housing strategies through acquisition, rehabilitation, and new construction of housing, and tenant-based rental assistance.

The TDHCA is authorized to use up to 10 percent of its HOME Program allocation for administrative costs necessary to carry out the Program. The TDHCA shares the funds authorized for administrative costs with its subrecipients. The following is a breakdown of the total funds received and the amounts available for administrative costs to carry out the Program during the 3 fiscal years ended August 31, 1999.

	HOME Funds Allocated	Funds Available to

Fiscal Year	to the State (millions)	Administer the Program (millions)
1997	$ 32.69	$ 3.27
1998	34.24	3.42
1999	37.06	3.70
Totals	$103.99	$10.39

Objectives, Scope, and Methodology

We began the review as a result of an anonymous complaint regarding one of the TDHCA's subrecipients. We were unable to substantiate the complaint. However, based on the work performed, we identified weaknesses in how the TDHCA supported its HOME Program administrative costs. In October 1998, we initiated an audit to address the apparent problems. Our audit objectives were to determine if the TDHCA: (1) properly supported administrative costs in accordance with program requirements and (2) ensured that subrecipients adequately supported administrative costs charged to the HOME Program. Our audit procedures included:

- Interviewing TDHCA and HUD officials.

- Reviewing Program regulations and related requirements.

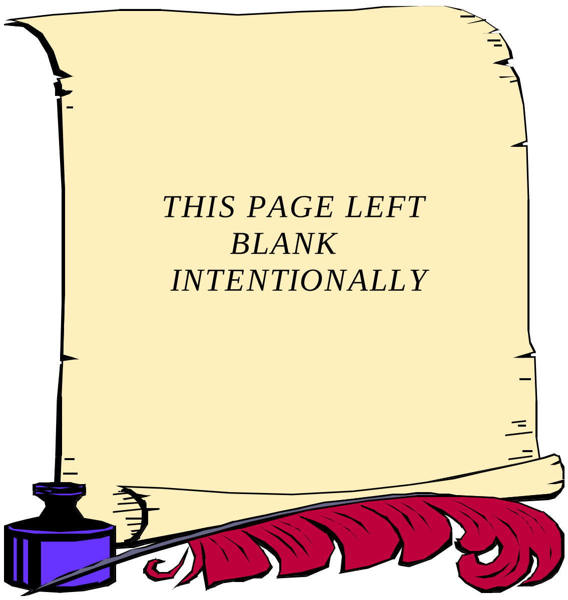
- Reviewing financial reports prepared by independent auditors.

- Testing expenses charged to the Program.

- Analyzing TDHCA's direct cost allocation method, Program budgets and expenditures for fiscal years 1997, 1998, and 1999.

- Performing a file review of 19 open and active contracts as of October 1998. The 19 contracts included all 7 contracts with the Texas State Affordable Housing Corporation entered into during the fiscal years 1995 through 1997 and 12 of 59 fiscal year 1996 and 1997 contracts with other subrecipients that drew down funds for administrative costs. The review included an examination of: (1) agreements; (2) administrative drawdown requests and supporting documentation; and (3) monitoring reports.

The audit generally covered the period February 1996 through February 1999. We performed the audit from October 1998 through May 1999, and conducted our audit in accordance with generally accepted government auditing standards.


THIS PAGE LEFT
BLANK
INTENTIONALLY

The TDHCA Could Not Support Certain Administrative Costs Charged to the Program

The TDHCA did not have acceptable support for certain direct administrative charges made to the HOME Program. The method used for allocating direct costs failed to show how the allocated costs benefited the HOME Program. The TDHCA allocated employees' payroll and payroll related benefits for employees working on multiple programs based on pre-determined budget percentages. The TDHCA did not base its allocations on actual time worked on the Program. For non-salary costs the TDHCA allocated charges to the Program based on available funding developed through the budgetary process. In addition, the TDHCA could not support its cost allocation to the Program for a new client server accounting system. As a result, neither the TDHCA nor HUD had assurance that about $1.26 million in administrative costs to the HOME Program were reasonable or appropriate in relation to the benefits received.

HUD Requirements

Title 24, Code of Federal Regulations (CFR), Section 92.207 allows a participating jurisdiction to expend up to 10 percent of HOME Program funds, for payment of reasonable administrative and planning costs necessary to carry out the Program[1].

Title 24, CFR, Section 92.505 states that a participating jurisdiction must follow uniform administrative requirements of Office of Management and Budget (OMB) Circular A-87, and certain requirements of Title 24, CFR, Part 85 apply.

OMB Requirements

OMB Circular A-87, establishes principles and standards for determining allowable costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments.

Attachment A of the circular states a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to it, in accordance with relative benefits received. Direct costs are those that can be

[1] The TDHCA gives its subrecipients 4 percent of the available 10 percent administrative fees to enable the subrecipient to carry out the HOME Program. The TDHCA retains the remaining 6 percent to cover its own expenses in overseeing the entire Program within the State.

identified specifically to the performance of the federal award. Typical direct costs chargeable to an award are: (1) compensation of employees for the time devoted to the award; (2) cost of materials, and equipment acquired, consumed, or expended specifically for the purpose of the award; and (3) travel expense incurred specifically to carry out the award.

Attachment B of the circular states that where employees work on multiple activities (programs) or cost objectives, a distribution of their salaries or wages will be supported by personal activity reports or equivalent documentation. They must: (1) reflect an after-the-fact distribution of the actual activity for each employee and (2) be prepared at least monthly and signed by each employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support.

Allocations of salaries and benefits were not supported.

The TDHCA did not maintain necessary documentation to support payroll costs[2] allocated to the HOME Program.[3] According to key personnel, the TDHCA has no requirement for employees who work on multiple activities to prepare activity reports that reflect actual work chargeable to the Program. Instead, the TDHCA charged payroll costs for employees working on multiple activities in divisions other than the HOME Program Office based on budget estimates. The activity heads would provide the percentage estimates annually and the TDHCA would charge the actual payroll costs based on these percentages and available funding for the programs. As a result, the TDHCA could not support the $860,478 charged the Program for payroll costs for the employees working on multiple programs.

In fiscal years 1997 and 1998, the unsupported payroll charges were for partial salaries of employees of the Compliance Monitoring Division, Housing Programs Division Administration, Credit Department, and the Office of Colonia Initiatives. In 1999, the TDHCA charged partial salaries of employees of only the Compliance Monitoring Division and the Office of Colonia Initiatives. The following table shows the number of employees within those divisions that the TDHCA charged a predetermined

[2] Payroll costs include both salaries and related payroll expenses (i.e., insurance and retirement costs).
[3] TDHCA properly charged and supported (except as noted later in the finding) direct costs to the Program for its HOME Program Division. Salaries, payroll related costs, and non-payroll costs for employees working in other divisions that received HOME administrative funds were unsupported.

percentage of payroll and related costs and the total amount charged to the HOME Program by fiscal year.[4]

State Fiscal Year	Employees with Predetermined Percentages	Unsupported Payroll and Related Costs Charged to Program
1997	18	$332,793
1998	25 ½	$391,924
1999[5]	22	$135,761

Non-payroll costs were unsupported.

Contrary to OMB Circular A-87, the TDHCA did not have an acceptable method to allocate non-payroll direct costs to the HOME Program for activities or costs that support the multiple programs. These included costs such as rent, utilities, travel, office equipment, and supplies for activities of the Compliance Monitoring Division, Housing Program Administration, Credit Department, and Office of Colonia Initiative. TDHCA based its budget for these non-payroll costs on available funding from the programs the activity supported. TDHCA then allocated the cost to these programs based on the established budgets. During the period September 1996 through February 1999, the TDHCA allocated $209,055 in non-salary related costs in this manner to the HOME Program. According to OMB Circular A-87, a cost is allocable if the goods and services involved are chargeable or assignable to the activity in accordance with relative benefits received.

Certain cost elements of these activities' overall operations received a portion of its budget from the HOME Program. But, the Department cannot support the actual cost benefit to the Program as required.

Other unsupported administrative costs.

The TDHCA could not adequately support direct charges to the HOME Program Division to convert its operations to a new client server accounting system. Between September 1997 and August 1998, TDHCA paid about $892,789 for this conversion. The HOME Program picked up $193,250 of the costs. Under its normal allocation procedures, based on the HOME Program Division's full-time equivalent employees, the TDHCA would have charged the Division $63,852 for its cost of the conversion.[6] However, without

4 The State of Texas has a September 1 through August 31 fiscal year.
5 Includes the period September 1, 1998, through February 28, 1999.
6 The TDHCA allocates department-wide cost to the HOME Program based on a percentage determined by dividing the number of full-time equivalent (FTE) positions in the HOME Program Division by the total department's FTEs. For the State's fiscal year

support for benefit to the Program, we are not certain this method would have been acceptable. TDHCA's staff made the following statements in support of the allocation: (1) the expenditure of funds for the conversion can be classified as an unique capital outlay of funds, and not allocable throughout the entire TDHCA; (2) to-date the conversion primarily effects only the federal programs administered by TDHCA[7]; and (3) it took more time to interface and convert the HOME Program database, resulting in a large allocation of the cost.

Attachment B, Section 6, of OMB Circular A-87 provides that electronic data processing services are allowable (but see Section 19, Equipment and other capital expenditures). Section 19 c provides that capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency.

The following table identifies the activities and the amount paid for the conversion by each.

Activity/Program Name	Amount Allocated
Manufactured Housing Division	$278,165.02
Office of the Chief Financial Officer	$201,675.09
HOME Program (Federal)	$193,250.57
Community Services Block Grant (Federal)	$97,349.41
Low Income Housing Energy Assistance (Federal)	$97,349.41
Financial Services Division	$25,000.00

During the audit, TDHCA staff developed and furnished us information in an effort to support the allocation. The information showed how the contractor allocated time and costs of the conversion according to tasks.[8] The additional information furnished proposed to allocate the conversion cost to five federal programs and one state activity.[9]

1998, the HOME Program Division had an allocation rate of 7.152 percent. Therefore, the HOME Program Division's share would be calculated: $892,789 x 7.152 = $63,852.

[7] The exception is the Manufactured Housing Division. This Division is responsible for and administers the manufactured housing program as required by the Texas Manufactured Housing Standards Act. Also, this Division administers parts of the National Manufactured Housing Construction and Standards Act of 1974 on behalf of HUD.

[8] The information TDHCA provided to support its allocation also included the price of the software package ($293,000) not included in the costs we questioned. TDHCA did not allocate any of the software costs to the HOME Program. Therefore, we consider this issue moot for the purpose of our audit since the actual payment did not include HOME Program funds.

[9] The State activity was the Manufactured Housing Division.

However, TDHCA received federal funds from ten individual grant programs of which eight are awards for greater than $1 million. The TDHCA needs to perform further analysis for review and consideration by HUD as to whether to approve the cost of the conversion to be charged as a direct cost to the HOME Program.

Auditee Comments

TDHCA officials agree with the dollar amounts stated in the finding but do not agree that $1.26 million are unsupported. They said they also do not agree that TDHCA does not have assurance that administrative costs of the Department charged to the HOME Program were reasonable or appropriate in relation to the benefits received. However, they agreed that staff working on multiple programs had not been required to keep time sheets based on their actual time for each program, as required by OMB Circular A-87. They stated they recognized the need to improve its documentation standards to clearly demonstrate that expenditures charged or allocated to the HOME Program are allowable and adequately supported. They said they believed we misinterpreted statements attributed to the Manager of Budget and Planning concerning the lack of rationale and support for charging non-payroll costs to the HOME Program.

TDHCA officials stated the HOME Program benefited from the new client server based accounting software package. They said this system provided an in-house accounting system tailored to the Department's programs as opposed to being an internal user of the Comptroller's Uniform Statewide Accounting System. Officials said they will provide support for the benefit to the HOME Program.

OIG Evaluation of Comments

TDHCA could provide us no adequate documentation to support the costs. Since TDHCA officials indicated we misinterpreted the comments from the Manager of Budget and Planning relating to the lack of rationale for allocating certain costs, we removed the reference to the comments. However, the comments from the TDHCA officials did not change our position on the unsupported costs. Their comments indicate they will be responsive to the recommendations and they will provide HUD documentation supporting the reasonableness of its budget allocations.

Recommendations

We recommend HUD's Texas State Office of Community Planning and Development require the TDHCA to:

1A. Establish and implement an appropriate method for allocating direct costs that meets federal cost principles, including actual activity time reports for personnel salaries and related costs chargeable to multiple programs.

1B. Either provide adequate support or pay back to the HOME Program from non-federal funds the $860,478 in payroll and related costs allocated based on pre-determined budgeted percentages.

1C. Either provide adequate support or pay back to the HOME Program from non-federal funds the $209,055 in non-salary related costs allocated to the Program based on budgeted amounts.

1D. Provide adequate support for your review and approval, or pay back to the HOME Program the $193,250 allocated to the HOME Program for the new client server accounting system.

1E. Ensure that any direct administrative costs charged to the HOME Program after February 28, 1999, are adequately supported or paid back to the Program.

TDHCA Did Not Oversee Its Subrecipients' Administrative Costs

TCHCA's subrecipients received and spent HOME Program funds to administer its programs without required oversight. The TDHCA did not require its subrecipients to submit necessary documentation to support requests for funds to cover administrative costs. Also, when the TDHCA monitored its subrecipients it did not include examining the propriety of administrative costs as part of the review. Consequently, the TDHCA and HUD have no assurance the expenditures were supported and eligible.

HUD Requirements

Each participating jurisdiction (PJ) must establish and maintain sufficient records to enable HUD to determine whether the PJ meets the recordkeeping requirements of 24 CFR 92.508.

The PJ is responsible for ensuring that HOME funds are used in accordance with all program requirements. The use of State recipients, subrecipients, or contractors does not relieve the PJ of this responsibility. A jurisdiction must enter into a written agreement with the subrecipient ensuring compliance with HOME Program requirements. The agreement must specify: (1) that all uniform administrative requirements (OMB Circular A-87, and 24 CFR 85) will be complied with; (2) the records and reports that must be maintained or submitted to assist the jurisdiction in meeting its recordkeeping and reporting requirements; (3) not to request disbursement of funds until the funds are needed for payment of eligible costs; and (4) each request must be limited to the amount needed (24 CFR 92.504).

TDHCA did not review subrecipient administrative costs.

Subrecipients did not submit, nor did the TDHCA require source documents to support draw down requests to cover administrative costs. We attribute this to non-specific and ambiguous contract provisions, and a lack of adequate management controls.[10] As a result, the TDHCA had no assurance that subrecipients used the funds it provided for administrative purposes in accordance with Program requirements.

10 Management controls include the processes for planning, organizing, directing, and controlling program operations.

Lack of supporting documentation in contract files.

We examined the contract files for 19 subrecipients. The 19 contracts included all 7 contracts with the Texas State Affordable Housing Corporation entered into during the fiscal years 1995 through 1997 and 12 of 59 fiscal year 1996 and 1997 contracts with other subrecipients that drew down funds for administrative costs. Our review was to ascertain whether subrecipients adequately supported draw down requests for funds to cover administrative costs, and whether TDHCA monitoring reviews covered subrecipient administrative costs. The review results for the sample disclosed that as of May 1999, the subrecipients drew down $424,491 to cover administrative costs. Documents contained in the contract files at that time supported only $16,000 in draw downs. Files did not contain documentation to support the remaining $408,491. Further, monitoring reviews conducted by the TDHCA only addressed programmatic issues and did not include an examination of administrative costs. As a result, TDHCA was less than successful in fulfilling its responsibility to ensure that subrecipients incur HOME Program administrative costs in accordance with Program requirements.

Contracts did not require supporting documentation and may be misleading.

Although the contracts between the TDHCA and subrecipients identified Program requirements by reference to regulations, they did not require subrecipients to submit documentation to support draw downs to cover administrative costs. Also, one provision in the contracts contradicts HOME Program requirements. As evidenced above, subrecipients provided the TDHCA no source documentation as required.[11] In most instances, subrecipients did not identify the nature and amount of the expenses. However, TDHCA is ultimately responsible for ensuring that subrecipients use HOME funds in accordance with program requirements.[12]

The contradictory provision in the contracts basically allows the subrecipient to draw down the available funds prior to their need, and ties the use of funds provided for administrative costs to the percentage of completion of the project rather than based on actual administrative expenses. The contract says:

[11] 24 CFR 92.508 requires each participating jurisdiction to establish and maintain sufficient records to enable HUD to determine if the requirements of this part are met.

[12] This requirement is outlined in 24 CFR 92.504 (a).

"Department will grant the Administrator an amount equal to four percent (4%)… of the Project Award to cover administrative expenses incurred directly relating to this contract. Administrative fees shall be funded by the Department to Administrator based on a percentage of completion of the project. Administrator shall be allowed to draw twenty-five percent (25%) of the administrative fees at the initial stage of the project, with the remaining seventy-five (75%) funded on a percentage of completion basis. At any given time, the allowable administrative fees would be equal to the initial twenty-five (25%) set-up draw, plus the percentage of completion draw."

Based on the above provision an uninformed subrecipient could infer that the 4 percent set aside for administrative costs is an entitlement for administering the contract. In fact, the use of administrative fees must be based on actual expenses and supported by documentation.

Auditee Comments

TDHCA officials did not agree that subrecipients received and spent HOME Program funds to administer its programs without required oversight. TDHCA officials said they have historically relied on on-site monitoring visits to ensure that draw downs for administrative costs are supported by proper source documentation. However, they are enhancing their on-site monitoring processes to help ensure that subrecipient administrative expenditures are allowable and supported. They stated they recognized the need to improve its documentation standards to clearly demonstrate that expenditures charged or allocated to the HOME Program are allowable and adequately supported. They are planning to provide subrecipients with an Administrative Draw Manual that will include requirements for support documentation. TDHCA will clarify the Administrative Costs section of the subrecipient contract and will enhance its monitoring function to ensure it is operating as effectively and efficiently as possible. TDHCA has initiated the task of gathering detailed support documentation from subrecipients for administrative fees.

OIG Evaluation of Comments

Although TDHCA officials disagree with our statement that TDHCA did not provide required oversight of its subrecipients' administrative costs, they could not provide evidence they included a review administrative costs in their monitoring reviews. Therefore, their comments do not change our position. Their comments indicate they recognize the opportunities for improvement and will be responsive to our recommendations.

Recommendations

We recommend HUD's Texas State Office of Community Planning and Development require the TDHCA to:

2A. Establish and implement procedures to ensure that draw downs for administrative costs are supported by proper source documentation.

2B. Consider preparing contracts that are more user friendly and less misleading for subrecipients to use and follow.

2C. Review all other subrecipients' administrative fee draw downs not included in our sample to ensure they are adequately supported, and repay the HOME Program from non-federal funds if any draw downs are not supported or supportable.

2D. Either support or pay back to the HOME Program from non-federal funds the $408,491 in unsupported administrative fees drawn by subrecipients.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in its broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Allocation of administrative costs to the HOME Program and

- Monitoring administrative fees utilized by subrecipients.

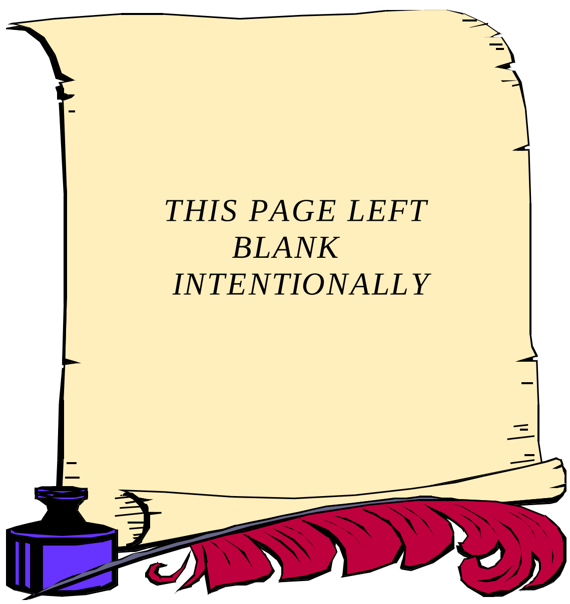
We assessed the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies: that resources are safeguarded against waste, loss, and misuse: and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

- The TDHCA lacked necessary administrative controls over how it allocates salary and non-salary costs for employees whose duties require working on multiple programs (Finding 1).

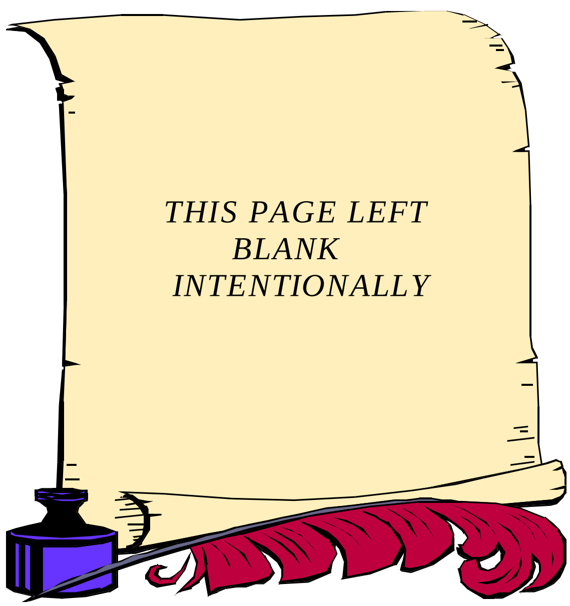
- The TDHCA did not ensure that subrecipients properly supported and used its administrative fees either: (1) at the time of drawdown or (2) during monitoring reviews (Finding 2).


THIS PAGE LEFT
BLANK
INTENTIONALLY

Schedule of Questioned Costs

Issue	Type of Questioned Costs Unsupported [1/]
1B Payroll and Related Costs	$860,478
1C Non-Salary Related Costs	209,055
1D New Client Server Accounting System	193,250
2D Administrative Fees	408,491

[1] Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.


THIS PAGE LEFT
BLANK
INTENTIONALLY

Auditee Comments

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

January 14, 2000

D. Michael Beard, District Inspector General
United States Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Room 13 A09
Fort worth, Texas 76102

Subject: Audit report - HOME Investment Partnership Program Administrative Costs

Dear Mr. Beard:

The Department appreciates the opportunity to respond to the audit report, *HOME Investment Partnership Program Administrative Costs.* The report highlights opportunities for the Department to improve its administration of the HOME Program, which Department staff has also recognized and is in the process of addressing.

The Department is not necessarily in agreement with other issues highlighted in the report. Specifically, the Department does not agree that it does not have assurance that administrative costs of the Department charged to the HOME Program were reasonable or appropriate in relation to the benefits received. Additionally, the Department does not agree that its subrecipients received and spent HOME Program funds to administer its programs without required oversight.

The Department's response to the draft report follows.

General Comments

1. In reference to finding #1, the Department agrees with the dollar amounts cited and the fact that the Department did not require multi-funded programs' staff to keep time sheets based on their actual time for each program, as required by OMB Circular A-87. As a result of this audit finding, the Department will require staff receiving multi-funding, where A-87 applies, to keep actual time by program. The Department agrees that this is both the simplest method and the most appropriate way to document and support payroll costs charged to federal programs.

   However, the Department does not agree with the report's conclusion that administrative costs of $1.26 million are unsupported. Additionally, the Department believes that the Office of Inspector General misinterpreted statements attributed to the Manager of Budget and Planning concerning the rationale and support for charging non-payroll costs to the HOME Program.

Visit us on the world wide web at: www.tdhca.state.tx.us
507 SABINE - SUITE 400 • P. O. BOX 13941 • AUSTIN, TEXAS 78711-3941 • (512) 475-3800

January 14, 2000
Page 2

The Department will provide support documenting the reasonableness of its budget allocations based upon the level of effort provided to the HOME Program by the four areas cited. These activities will be documented by various methods depending on the specific type of activity in each area. For example, travel expenditures in Compliance for HOME as compared to total travel for the Compliance Division.

The Department uses HOME Program staff to administer the general purposes of the program, such as processing applications, awards and draws; offering technical assistance; and monitoring program-specific criteria. Other divisions within the Department are better suited by virtue of their specialized skills and qualifications to benefit HOME activities, such as financial monitoring, credit underwriting, marketing, and assisting the Colonias.

- Compliance – The Compliance Division's Audit Resolution staff review subrecipient single audits, specifically to seek corrective action on questioned costs. The auditors are either CPA's, have degrees in accounting, or (in one case) business administration. Compliance Auditors also travel with HOME Program staff to perform in-depth financial monitoring to supplement reviews conducted by HOME Program staff on high risk or problem contractors. The Compliance Division also monitors HOME multi-family projects (after they are placed in service) for tenant eligibility and other long-term requirements. This staff has the experience and expertise with other rental housing programs, such as tax credits and tax exempt bonds, which then leads to a very efficient audit on HOME rental projects throughout the affordability periods. Their monitoring duties include the quarterly and annual desk reviews of project/unit status reports, periodic onsite tenant file inspections, and receipt of the annual Housing Sponsor Report. The Compliance Division also conducts regularly scheduled training for the owners and managers of HOME rental projects. The daylong workshops are designed to provide in-depth training on the day-to-day activities associated with maintaining compliance with occupancy and rent restrictions on a rental project. In addition to the monitoring duties, the Division operates a Compliance hotline. Project owners and managers get immediate answers to compliance questions by calling the 800 number, which is staffed by Compliance Division monitors.

- Colonia Initiatives - The Office of Colonia Initiatives (OCI) was established by the Department in response to the special needs of the colonias along the Texas-Mexico border. Both federal and state legislatures, and their agencies have recognized the special need in this geographic area and have focused new initiatives to reach this underserved population. Two problems have been identified and given the highest priority. The first is providing infrastructure for safe drinking water and sewage treatment. The second is the conversion of contracts for deed to traditional mortgages, which will then facilitate the loans necessary to improve the overall housing conditions in the colonias.

  The Department identified three programs that it administers which could specifically serve to improve these conditions: CDBG, HOME, and the Department's bond programs. CDBG was identified for infrastructure and to provide technical assistance in three field offices along the border. The HOME Program and bond funds have been used as funding sources for contract for deed conversions. The strategy used to implement the solutions was to employ staff who were both versed in the HOME and bond programs and who were also bilingual. Three field offices along the Texas-Mexico border were also established to provide greater accessibility to Colonia residents. The Department believes this additional marketing outreach is necessary to increase the number of HOME projects and funding in this historically underserved area.

January 14, 2000
Page 3

- Credit Underwriting - The Department has used the Credit Underwriting Division with their specific financial and real estate market knowledge to evaluate the financial feasibility of multi-family projects for all programs that fund multi-family projects, including the HOME Program. Centralized underwriting for all Department programs provides a heightened knowledge base of the anticipated financial performance of housing development transactions of all types. The analysis provided by the centralized underwriting division becomes part of the HOME staff's recommendation that is brought to the Department's Board for final award. These efforts add value to the HOME Program and are not duplicated by HOME Program staff. Accordingly, HOME funding of these underwriting activities is appropriate.

- Programs Administration - The questioned costs in FY 1997 referred to in this report from Programs Administration, which were charged to the HOME Program, were for an administrative assistant. The HOME Program's manager used this staff person to assist him with management of the Neighborhood Partnerships program (HOME specific activities). The HOME Program was charged payroll-related costs for the administrative assistant based upon an estimate of the time that the assistant would support the HOME Program.

2. The Department disagrees with the conclusion that the HOME Program received no benefit from the new client server based accounting software package (CSAS). In state fiscal year 1998, the Department purchased and implemented the CSAS package, which includes both software and implementation costs. This system provided an in-house accounting system tailored to the Department's programs as opposed to being an internal user of the Comptroller's Uniform Statewide Accounting System (USAS). All Department programs were benefited except for the Department's Housing Finance Division, which already had an in-house accounting system tailored specifically for Housing Bond Finance. The allocation of CSAS was based upon the following assumptions:

- Allocation-based Implementation Hours – CSAS implementation costs were determined by hours for tasks that were required to make the system functional for the federal programs and based on a fit analysis. The total hours were determined and agreed to at the beginning of the project and were tracked accordingly. During the final phase of the implementation, it was determined that the HOME Program required an interface from CSAS to an existing system used by HOME Program staff. The original hours and tasks were shifted in order to accommodate the hours associated with the new interface. An allocation sheet showing actual consulting hours benefiting various program areas is available upon request.

- Software Costs Not Included in Allocation - The CSAS software totaling $293,000 was not allocated to federal programs but its costs should be considered in the basis of the overall costs. The software included PeopleSoft Financials for Public Sector and an Oracle relational database management system. The Department's reallocation of total implementation and software costs of $1,184,778 results in an allocation to the HOME Program of $218,960 or $25,710 greater than the $193,250 actually charged to the HOME Program.

In Response to Recommendations

Response 1A.
The Department has begun implementation in FY 2000 (September 1999) to have those program areas with costs chargeable to multiple programs, including the HOME Program, keep their actual time per program. On a quarterly basis, the Department will compare these costs to those budgeted and make adjustments as necessary.

January 14, 2000
Page 4

Response 1B.
The Department intends to provide support for payroll related costs based on documented activities benefiting the HOME Program. The documentation will include support demonstrating personnel-related activities that supported and benefited the HOME Program.

Response 1C.
The Department intends to provide support for non-salary costs based on documented activities benefiting the HOME Program. Payroll and related costs are the largest part of the expenditures supported by the HOME Program during the years questioned. Once the Department has established that the multiple-funded areas provided services to the HOME Program, then it is reasonable that non-payroll costs should be in the same proportion as payroll, to be fully equitable.

Response 1D.
The Department will provide support for benefit to the HOME Program for its portion of the client server accounting system. An allocation across all programs in the Department based upon FTE's was not appropriate, since the system benefited federal programs and manufactured housing disproportionately. Conversion activities relating to the HOME Program used more hours than other programs in order to provide HOME Program staff interfaces with existing data systems. Additionally, the HOME Program was not allocated its proportional share of all of the costs that make up the entire accounting system, such as the software costs. The Department will compile the total costs of the new client server accounting system and provide adequate support to demonstrate the benefits of the new system to the HOME Program and the reasonableness of the associated costs allocated to the HOME Program.

Response 1E.
The Department will analyze the costs described in 1B and 1C incurred after February 28, 1999 and provide support for those costs.

Response 2A:
The Department has historically relied on on-site monitoring visits of its subrecipients to ensure that draw downs for administrative costs are supported by proper source documentation. Accordingly, it should not be expected that the Department's contract files would have the source documents in support of the administrative costs draw down requests.

During the summer of 1999, the HOME Program instigated a review of its monitoring function and, as a result, enhanced its processes to help ensure that subrecipient administrative expenditures are allowable and supported.

To ensure that that subrecipients understand their responsibilities relating to administrative costs, the Department plans to provide an Administrative Draw Manual to all subrecipients that will include eligible HOME administrative costs, standardized forms for draw down requests and requirements for support documentation.

Furthermore, in an effort to continually improve upon our administration of the HOME Program, the Department recently implemented the HOME Online System that allows the Department's subrecipients to request administrative funds electronically. However, the HOME Online system does not preclude subrecipients from providing support documentation to the Department. The Department requires subrecipients to submit a summary of the support documentation for all administrative draw downs received within a given quarter. This support documentation is then utilized when conducting on-site tests for compliance. The HOME Online System received a *Best Practices Award* from HUD in July 1999.

January 14, 2000
Page 5

Response 2B:
The Department will clarify the Administrative Costs section of the HOME subrecipient contract for FY2000, wherein the Department will reimburse the subrecipient up to four percent (4%) of the project budget for eligible administrative costs incurred directly relating to the HOME Project and in accordance with 24 CFR 92.207. The amount disbursed for administrative costs incurred will be limited to the actual administrative costs incurred up to 4 percent of the project budget up to the percentage of completion of the HOME Project.

Response 2C:
As mentioned in the response to 2A above, the Department relies on on-site monitoring visits to ensure that draw down requests for administrative costs are supported by proper source documentation. The Department believes that this process is the most effective and efficient means to provide reasonable assurance that the subrecipients have sufficient documentation to support their administrative draws in accordance with program requirements. Accordingly, the Department believes that its best use of resources to ensure that subrecipient administrative costs are allowable and supportable is to continue with the Department's efforts to provide its subrecipients with the previously mentioned Administrative Draw Manual and to continue to enhance its monitoring function to ensure that it is operating as effectively and efficiently as possible.

Response 2D:
To comply with the Inspector General's request, the Department has initiated the task of gathering detailed support documentation from its subrecipients for the administrative fees in question.

In Response to Relevant Management Controls

The Department recognizes that it needs to improve its documentation standards to clearly demonstrate that expenditures charged or allocated to the HOME Program are allowable and adequately supported. Although there are opportunities to improve the Department's documentation standards and compliance with such standards, the Department maintains that charges to the HOME Program were reasonable and based upon services received and benefits derived by the HOME Program. The Department will work with HUD's Texas State Office of Community Planning and Development in providing them with documentation supporting the costs in question.

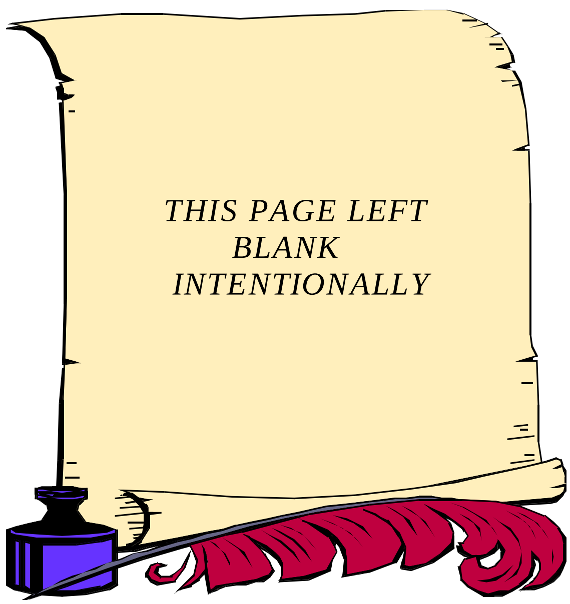
As previously discussed in the Department's responses to recommendations, the Department intends to implement procedures to provide adequate support for all costs, payroll and non-payroll related, charged or allocated to the HOME Program. Additionally, the recently designed and implemented subrecipient monitoring processes will better document the Department's monitoring procedures designed to help ensure that subrecipient administrative expenditures are allowable and supported.

Concluding Comments

Thank you for the courtesies extended by your auditor during the course of this review. His hard work and dedication have assisted the Department and its staff in recognizing the need to institute some needed changes to the HOME Program. The Department believes that these changes will further enhance the operating effectiveness of the HOME Program.

Sincerely,

Daisy Stiner,
Executive Director


THIS PAGE LEFT
BLANK
INTENTIONALLY

Distribution

Secretary's Representative, 6AS
Comptroller, 6AF
Director, Accounting, 6AAF
Director, CPD, 6AD (4)
Saul N. Ramirez, Jr., Deputy Secretary, SD (Room 10100)
Kevin Simpson, Deputy General Counsel, CB (Room 10214)
Jon Cowan, Chief of Staff, S (Room 10000)
B. J. Thornberry, Special Asst. to the Deputy Secretary for Project Management (Room 10100)
Joseph Smith, Acting Assistant Secretary for Administration, A (Room 10110)
Hal C. DeCell III, A/S for Congressional and Intergovernmental Relations, J (Room 10120)
Ginny Terzano, Sr. Advisor to the Secretary, Office of Public Affairs, W (Room 10132)
Roger Chiang, Director of Scheduling and Advance (Room 10158)
Howard Glaser, Counselor to the Secretary, S (Room 10218)
Rhoda Glickman, Deputy Chief of Staff, S (Room 10226)
Todd Howe, Deputy Chief of Staff for Operations, S (Room 10226)
Jacquie Lawing, Deputy Chief of Staff for Programs & Policy, S (Room 10226)
Patricia Enright, Deputy A/S for Public Affairs, W (Room 10222)
Joseph Hacala, Special Asst for Inter-Faith Community Outreach (Room 10222)
Marcella Belt, Executive Officer for Admin Operations and Management (Room 10220)
Karen Hinton, Sr. Advisor to the Secretary for Pine Ridge Project (Room 10216)
Gail W. Laster, General Counsel, C (Room 10214)
Armando Falcon, Office of Federal Housing Enterprise Oversight (Room 9100)
William Apgar, Assistant Secretary for Housing/FHA, H (Room 9100)
Susan Wachter, Office of Policy Development and Research (Room 8100)
Cardell Cooper, Assistant Secretary for CPD, D (Room 7100)
George S. Anderson, Office of Ginnie Mae, T (Room 6100)
Eva Plaza, Assistant Secretary for FHEO, E (Room 5100)
V. Stephen Carberry, Chief Procurement Officer, N (Room 5184)
Harold Lucas, Assistant Secretary for Public & Indian Housing, P (Room 4100)
Gloria R. Parker, Chief Information Officer, Q (Room 8206, L'Enfant Plaza)
Frank L. Davis, Director, Office of Dept Operations and Coordination, I (Room 2124)
Office of the Chief Financial Officer, F (Room 2202)
Edward Kraus,, Director, Enforcement Center, 200 Portals Bldg., Wash.D.C. 20024
Donald J. LaVoy, Acting Director, REAC, 800 Portals Bldg., Wash D.C. 20024
Ira Peppercorn, Director, Office of MF Assistance Restructuring, 4000 Portals Bldg.,
Wash. D.C. 20024
Mary Madden, Assistant Deputy Secretary for Field Policy & Mgmt, SDF (Room 7108) (2)
Deputy Chief Financial Officer for Operations, FF (Room 2202)
David Gibbons, Director, Office of Budget, FO (Room 3270)
FTW ALO, AF (2)
HQ ALO **CPD, DOT** (Room 7220) (2)
Dept. ALO, FM (Room 2206) (2)
Acquisitions Librarian, Library, AS (Room 8141)

Director, Hsg. & Comm. Devel. Issues, **US GAO**, 441 G St. NW, Room 2474
Washington, DC 20548 **Attn: Judy England-Joseph**
Henry A. Waxman, Ranking Member, Comm. on Govt Reform,
House of Rep., Washington, D.C. 20515
The Honorable Fred Thompson, Chairman, Comm. on Govt Affairs,
U.S. Senate, Washington, D.C. 20510
The Honorable Joseph Lieberman, Ranking Member, Comm. on Govt Affairs,
U.S. Senate, Washington, D.C. 20510
Cindy Fogleman, Subcomm. on Gen. Oversight & Invest., Room 212,
O'Neill House Ofc. Bldg., Washington, D.C. 20515
The Honorable Dan Burton, Chairman, Committee on Govt Reform,
House of Representatives, Washington, D.C. 20515
Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human
Resources, B373 Rayburn House Ofc. Bldg., Washington, D.C. 20515
Steve Redburn, Chief, Housing Branch, Office of Management and Budget
725 17th Street, NW, Room 9226, New Exec. Ofc. Bldg., Washington, D.C. 20503
Director, Office of Supportive Services, PRS (Room 4106)
Inspector General, G
State of Texas, TDHCA (2)
Texas State Auditor