



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

**REPORT ON THE AUDIT OF THE
PROGRAM CASH MANAGEMENT FOR
FEMA INDIVIDUAL ASSISTANCE PROGRAMS**

MAY 2020

OVERALL CONCLUSION

The Community Development and Revitalization (CDR) program has established policies and Standard Operating Guidelines (SOG) for governing the administration, cash management, and monitoring operations of the Direct Assistance for Limited Home Repair (DALHR) and Manufactured Housing Units and Recreational Vehicles (MHU-RV) programs. Each program generally provided reasonable assurance of compliance with federal and state laws and regulations, as well as with agency financial policies. The Federal Finance section of the Financial Management division has developed procedures and tools for processing disbursements, requesting reimbursements from the Federal Emergency Management Agency (FEMA), and the tracking of cash flows.

While there are controls in place, the audit identified gaps in policies and procedures that contributed to control weaknesses in both the design and effectiveness of operations. There were areas in which policies and procedures should be revised and adopted to improve controls in the design, operations, and reporting effectiveness for the cash management of the FEMA administered programs. Specifically, the areas identified are associated with:

1. Adopting and revising agency and program standard operating guidelines for cash management processes
2. The tracking of cashflows is susceptible to errors due to manual data maintenance and the absence of periodic reconciliations
3. Strengthening controls for the preparation of FEMA reimbursement packages
4. Ensuring the protection of Sensitive Personally Identifiable Information used to reallocate salaries to the appropriate Federal funding

During the audit, there were additional areas identified as opportunities for improvement, in which the agency could strengthen its internal controls associated with the cash management processes but were not deemed as significant. These areas were presented to management in a separate communication.

MANAGEMENT'S SUMMARY RESPONSE

Management concurs with the recommendations. The "Detailed Results" section of this report contains management's response to each observation.

ACKNOWLEDGEMENTS

The CDR program, Federal Finance, Cash Management and Enterprise Technology Solutions are to be commended for their commitment to serving the people of Texas through their tireless efforts in the administration and monitoring of the disaster recovery efforts. We appreciate the assistance and cooperation provided to us by the management and staff of these areas during this audit.

For questions about this report, please contact William Urbina at (512) 463-5349, DeQuincy Adamson at (512) 463-8142, or Tracey Hall at (512) 463-6078.



Tracey Hall, CPA, CISA
Director of Internal Audit

May 27, 2020
Date

OBJECTIVES

The GLO's Office of Internal Audit conducted a co-sourced audit risk assessment, in coordination with Ernst & Young (EY), related to the GLO's administration of Hurricane Harvey recovery programs, including the short-term direct housing recovery program governed by the Inter-Governmental Service Agreement (IGSA) between the GLO and FEMA. Based upon the risk assessment, program cash management of the individual assistance programs administered by the GLO was selected for the audit. The individual assistance programs included in the scope of this audit were the Direct Assistance for Limited Home Repair (DALHR) and the Manufactured Housing Units and Recreational Vehicles (MHU/RV) programs.

The objectives of this audit were:

1. Evaluate cash management policies and procedures.
2. Assess the effectiveness of controls over the review and reconciliation of incurred expenses and FEMA reimbursements procedures (including the framework to monitor and manage cash flow and review of key performance indicators).
3. Evaluate policies and procedures on monitoring the recording of employee time and reimbursement of time incurred.
4. Evaluate the agency's compliance of payment terms in executed vendor contracts.
5. Evaluate general controls on relevant IT systems and tools.

SCOPE & METHODOLOGY

The scope of the audit consisted of reviewing and evaluating information and documents associated with the cash management of the FEMA individual assistance programs (DALHR and MHU-RV) from September 1, 2017 through June 30, 2019. This audit assessed the processes, risks, and controls for the end-to-end cash management process, including monitoring of cash inflows and outflows, reporting of cash flow status to key stakeholders, segregation of duties, and use of personally identifiable information (PII). This also included an assessment of the underlying data and information technology (IT) systems. This included interviewing knowledgeable staff, observing processes, analyzing and evaluating information obtained.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

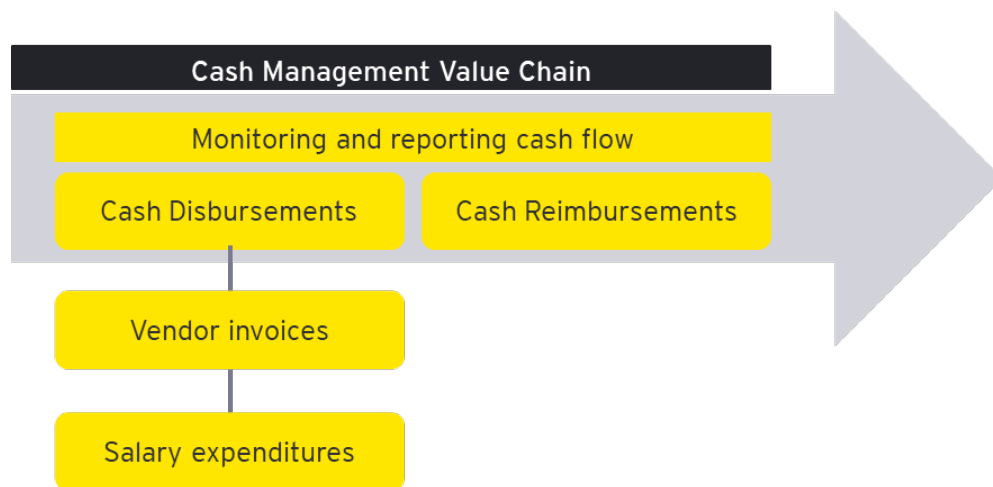
BACKGROUND INFORMATION

On August 25, 2017, the President declared major disaster DR-4332 (Hurricane Harvey) for the State of Texas (State) pursuant to his authority under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.). This declaration authorized the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) to provide financial assistance and direct services, under Section 408 of the Stafford Act, to individuals and households "who, as a direct result of a major disaster, have necessary expenses and serious needs in cases in which the individuals and households are unable to meet such expenses or needs through other means," such as insurance.

FEMA partnered with the State in a pilot program to enable the State to execute its short-term housing programs. The State designated the Texas General Land Office (GLO) as the lead state agency for this pilot program. On September 22, 2017, the GLO and FEMA entered into an Intergovernmental Service Agreement (IGSA) for the provision of direct housing assistance for Hurricane Harvey. The GLO has contracted with various entities to assist in its administration of the recovery programs including providing Manufactured Housing Units (MHUs) and Recreational Vehicles (RVs) to impacted citizens, conducting activities for the Direct Assistance for Limited Home Repairs (DALHR) program, project management, and other professional services.

OVERVIEW OF THE GLO CASH MANAGEMENT PROCESS

The following graphic outlines the end-to-end cash management processes used for payments to vendors, reimbursements submitted to FEMA for payment, and the monitoring and reporting of cashflows to GLO management.



The cash management process begins with:

1. The receipt of a contractor invoice, by the GLO through the designated Accounts Payable (AP) email address. Upon receipt of each vendor invoice, the GLO must pay the invoice within 30 days. On the 31st day, the invoice is considered overdue and payments accrue interest as dictated by Chapter 2251 of the Texas Government Code, the Prompt Pay Act.
2. The Federal Finance section submits paid invoices to FEMA in the form of reimbursement packages for reimbursement to the GLO from FEMA.

3. Monthly, the GLO prepares Administrative Funding Reports to communicate to FEMA the GLO's life-to-date spend against the 25% total projected administrative cost amount advanced to the GLO from FEMA in accordance with the IGSA.
 - Under the IGSA, Administrative costs means any direct and indirect costs, administrative expenses and any other expenses not directly chargeable to a specific project that are reasonably incurred by the State and municipalities in administering and managing Individual Assistance programs.
4. The Federal Finance section maintains a Microsoft Excel spreadsheet, titled "Cash Flow Analysis", to manually track payments made to vendors and the status of reimbursement packages submitted to FEMA from the GLO for the Individual Assistance short-term disaster recovery relief programs.
5. A summary of cashflows is reported to GLO management weekly to provide details on cash inflows from FEMA, cash outflows and expected cash outflows, and outstanding FEMA reimbursement details by vendor for the GLO to monitor available funding necessary to execute the Individual Assistance programs.

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DETAILED RESULTS

CHAPTER 1: ADOPT AND REVISE AGENCY AND PROGRAM STANDARD OPERATING GUIDELINES FOR CASH MANAGEMENT PROCESSES

While the GLO-Federal Finance section has Standard Operating Guidelines (SOGs) and desktop procedures in place to outline processes in directing operations of the FEMA Individual Assistance programs, gaps in certain cash management processes, were identified during the review. Specifically, gaps where procedures and internal controls are needed to be strengthened pertain to the following:

- Maintenance of the Cash Flow Analysis and reporting of associated cashflows to GLO management, FEMA, and the Texas Governor's Office
- GLO-Federal Finance and Program Area review procedures of contractor invoices
- GLO-Federal Finances preparation and review of reimbursement packages of contractor invoices submitted to FEMA for reimbursement
- Adjustments made to invoices (e.g. Clean and Make Ready expenses or other revisions) prior to payment to vendors or submission to FEMA for reimbursement

Without adequate cash management procedures formally documented in SOGs or desktop procedures, the GLO may not be able to meet demand requirements in the case of staffing turnover or in the occurrence of another natural disaster.

RECOMMENDATIONS FOR MANAGEMENT

1. Management should ensure SOGs or other desktop procedures are revised or developed to document processes critical to the end-to-end cash management process. The documentation should include who performs and reviews the process, the frequency with which the activity is performed, and tasks relevant to execute the process.

MANAGEMENT'S RESPONSE

Management agrees that Standard Operating Guidelines and desk procedures should be properly documented and maintained. Financial Management hired Baker Tilly to assist in the initial documentation process. As procedures change, the FEMA Finance team will modify existing SOG's should this mission occur again at the GLO.

Implementation Date: November 30, 2020

Contact(s): Warren Collier, Senior Director, Federal Finance

CHAPTER 2: THE TRACKING OF CASHFLOWS IS SUSCEPTIBLE TO ERRORS DUE TO MANUAL DATA MAINTENANCE AND THE ABSENCE OF PERIODIC RECONCILIATIONS

GLO-Federal Finance does not have an automated cash management system. GLO-Federal Finance uses a Cash Flow Analysis workbook in Microsoft Excel to monitor cashflows (debits and credits), forecast expected cashflows, and reporting to GLO management. Based on the review, the Cash Flow Analysis is manually updated daily by staff of GLO-Federal Finance using data from MIP (agency system of record), Uniform State-Wide Accounting System (USAS), and Buy-Speed Online (BSO).

Currently, there is no established procedure to perform periodic reconciliations (e.g. daily, weekly, or monthly) between the Cash Flow Analysis and source data. Performing a periodic reconciliation helps management confirm that the data within the spreadsheet is complete and accurate prior to analysis.

The absence of reconciliations for financial processes associated with these programs and payments to vendors to source data could lead to inaccurate, incomplete, or duplicate vendor disbursements and reimbursement packages submitted to FEMA and the inaccurate or untimely reporting of data to GLO management and the Governor's Office. Through limited sample testing, no instances of duplicate payments were identified as being made to vendors or duplicate invoices submitted to FEMA for reimbursement.

RECOMMENDATIONS FOR MANAGEMENT

Management of the GLO-Federal Finance section should:

1. Implement a control to reconcile data within the Cash Flow Analysis workbook to source data in MIP, BSO, and USAS. The control should designate the frequency of the reconciliation, the responsible party, and review of the reconciliation performed. It should also include a process to document and retain the reconciliations.
2. Consider the usage of automated tools to prepare the reconciliation to drive consistent controls execution and to limit manual data processing requirements and the risk of keying errors. If the GLO continues to use a spreadsheet, management should have formulas within the workbook locked after the workbook has been tested to manage unnecessary changes. The workbook should also only allow for source data to be entered to minimize the risk of calculation errors.
3. Develop desktop procedures to guide control owners on compiling accurate and complete data and limiting processing errors in the Cash Flow Analysis workbook.

MANAGEMENT'S RESPONSE

Management's intent is to use the Cash Flow Analysis as an internal tool to provide a snapshot of cash balances in order to make decisions regarding the continued need for alternate funding sources to meet existing and anticipated obligations. It was shared primarily with the Chief Financial Officer and the Chief Clerk in periodic briefings. This document was not a Cash Flow Statement as part of any official financial statements presented by GLO.

Recommendation 1: Each Cash Flow Analysis was tied to USAS which is the official accounting record of the state of Texas. The Reporting unit within Financial Management reconciles MIP to USAS on a monthly basis.

Recommendation 2: Should the GLO receive this mission for future disasters, GLO will consider what automation opportunities exists for this report. GLO will be going live on CAPPS Financials on September 1, 2021 which may provide an opportunity for the automation of various reports.

Recommendation 3: GLO agrees in the development of detailed processes and procedures for the compilation of this document.

Implementation Date: November 30, 2020

Contact(s): Warren Collier, Senior Director, Federal Finance

CHAPTER 3: STRENGTHEN CONTROLS FOR THE PREPARATION OF FEMA REIMBURSEMENT PACKAGES

During the review, it was identified that reimbursement packages submitted to FEMA are manually prepared. The GLO does not use an automated system to track invoices submitted to FEMA for reimbursement but tracks reimbursements through the Cash Flow Analysis workbook. GLO-Federal Finance had equally split \$18,108,415 in Project Management services between the MHU and RV programs and submitted the invoices for reimbursement to FEMA as of June 30, 2019.

In a memorandum provided to FEMA on July 18, 2019, the GLO elected to allocate costs equally as the GLO implemented both the MHU and RV programs simultaneously. Per inquiry with management, the GLO has identified this finding, and management has recorded journal vouchers in MIP to reclassify Project Management costs to the correct Program Cost Account. Federal regulations require that federal awards be expended for the intent of the program and accurately reported so that they were expended according to the award.

RECOMMENDATIONS FOR MANAGEMENT

The GLO should:

1. Determine whether an automated system or tool to track invoices submitted to FEMA is viable.
2. Implement a control to periodically reconcile invoices submitted for reimbursement to FEMA, against USAS or Comptroller funds receipt.
3. Develop and document a process for the preparation of the reimbursement packages to provide guidance for GLO staff.
4. Coordinate with FEMA to identify how to reclassify Project Management costs between the MHU and RV programs in accordance with 2 C.F.R. Section 200.302(B) (1 and 3). The communication between the GLO and FEMA should be documented.

MANAGEMENT'S RESPONSE

Recommendations 1 & 2: GLO agrees that a better tracking mechanism should be utilized. The agency's current accounting system MIP includes a receivable module. The reimbursement packets can be submitted, the receivable recorded and liquidated as payment is received. This revised process would include the FEMA Finance team, Financial Management's (FinMan) Reporting Unit and FinMan's Cash Management unit. By incorporating these various areas, this process would also achieve a better segregation of duties split.

Recommendation 3: The reimbursement requests guidelines were dictated by FEMA and evolved as FEMA management changed in the Texas Recovery Office. This mission was the first time that FEMA delegated the mission to a state. Both FEMA and GLO developed procedures on a trial and error basis. They were documented and modified as the program unfolded. The reimbursement requests included

manually compiling thousands of pages of documentation and submitting the requests to FEMA via email. GLO supports further refinement and documenting of the reimbursement requests process including working with FEMA to incorporate documentation requirements into the Intergovernmental Service Agreement.

Recommendation 4: GLO coordinated with FEMA on how to reclassify Project Management costs between the MHU and RV programs. The communication between GLO and FEMA was documented on August 5, 2019.

Implementation Date: August 25, 2020

Contact(s): Warren Collier, Senior Director, Federal Finance

CHAPTER 4: ENSURE THE PROTECTION OF SENSITIVE PERSONALLY IDENTIFIABLE INFORMATION (SPII) USED TO REALLOCATE SALARIES TO THE APPROPRIATE FEDERAL FUNDING

The Salary Distribution spreadsheet maintained by Financial Management for reallocating time across federal funds contains employees' SPII. The GLO uses the SPII to identify employees across its systems of record, rather than unique employee identifiers, such as the Texas Identification Numbers (TINs). Unnecessary use of personal highly sensitive data should be avoided. The SPII recorded in the Salary Distribution spreadsheet is not encrypted. The spreadsheet is password protected; however, the password has not been changed since December 2018, and there is no policy or procedure to ensure the routine changing of the password and that it complies with agency Information technology security policies.

Per discussion with management, the SPII used in the Salary Distribution spreadsheet is to identify employees in both the Timekeeper system, a Microsoft Access database where employees record their time, and the Uniform Statewide Payroll/Personnel System (USPS), the Comptroller's payroll system. The Salary Distribution spreadsheet is routed within Financial Management in the preparation, review, and approval of employee time allocated to federal administered programs and is housed in a secured shared folder with access permissions restricted to approved employees.

RECOMMENDATIONS FOR MANAGEMENT

Management should:

1. Ensure the use of a unique employee ID number that is assigned to each employee upon hiring to identify employees.
2. Determine housing employee SPII in GLO databases, systems, or other documents to be critical, access to the files and master data should be restricted and the information should be encrypted.
3. User access to the files and master data should be reviewed on a periodic basis by management. Management should have formal policies and procedures defined for transferring documentation and monitoring systems with SPII.

MANAGEMENT'S RESPONSE

GLO supports the use of a generic identifying number for employees for the allocation process as opposed to the existing SPII. GLO will go live on CAPPs HR on July 13, 2020 which will remedy this issue. CAPPs uses a unique non-SPII number for all employees

Implementation Date: July 2020

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