



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

**REPORT ON THE AUDIT OF
GRANT COMPLIANCE FOR CDBG-DR
2015 AND 2016 FLOOD PROGRAMS**

NOVEMBER 2022

OVERALL CONCLUSION

The Texas General Land Office's, Community Development and Revitalization (GLO-CDR) program has established effective controls and processes to ensure the Single-Family Assistance programs for the Community Development Block Grant-Disaster Recovery (CDBG-DR) of the 2015 and 2016 Flood Grant Programs are adequately administered. Each activity reviewed generally provided reasonable assurance of compliance with federal and state laws, regulations, and agency policies.

While there are controls in place, there were areas in which the design and effectiveness of operations should be strengthened. Specifically, the areas identified are associated with:

1. Appropriately categorizing project delivery expenses.
2. Ensuring that expenditures are accurately classified in the Disaster Recovery Grant Reporting (DRGR) system.
3. Including required contracts in the GLO Subrecipient Contract Reporting listing maintained on the GLO recovery website.
4. Ensuring the subrecipient draw request review, approval, and reimbursement processes consistently adhere to program guidelines, policies and procedures, as well as federal and state regulations.

During the audit, there were additional areas identified as opportunities for improvement, in which the agency could strengthen its internal controls associated with subrecipient oversight of management processes but did not meet the criteria for inclusion in this report. 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 GLO-CDR program and the Federal Finance division 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 the divisions reviewed during this audit. For questions about this report, please contact Tracey Hall at (512) 463-6078.



Tracey Hall, CPA, CISA
Chief Auditor

November 15, 2022
Date

BACKGROUND INFORMATION

In 2015 and 2016, Texas experienced major flood disasters. The U.S. Department of Housing and Urban Development (HUD) approved the State of Texas's 2015 and 2016 Action Plans for the CDBG-DR funds under the continuing appropriations acts¹, which provided a total of \$74,568,000 and \$238,895,000 for 2015 and 2016, respectively. 116 counties were impacted by the disaster events of 2015. HUD designated Harris, Hays, Hidalgo, and Travis as the "most impacted and distressed" counties. Of the 71 counties allocated funds from the 2016 flood events, the counties of Brazoria, Fort Bend, Harris, Montgomery, and Newton were designated "most impacted and distressed" by HUD which required that these counties receive 80 percent of the funds.

CDR operates both short and long-term disaster recovery programs directly which serve as a pass-through to local governmental entities to rebuild and restore Texas communities impacted by the 2015 and 2016 flood disasters.

¹ 2015 Action Plan: Public Laws 114-113 and 115-31; 2016 Action Plan: Public Laws 114-223, 114-254, and 115-31.

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DETAILED RESULTS

CHAPTER 1: ENSURE EXPENDITURES ARE ACCURATELY CLASSIFIED IN DRGR

In review of subrecipient draw requests for the 2016 Flood Program, three recorded expenditures in the DRGR system, from September and November 2020, were categorized as "GLO-Administration" and not associated with a corresponding subrecipient activity. These expenditures were temporarily categorized as GLO-Administration to execute the payments while awaiting the approval and set-up of the appropriate corresponding subrecipient activity in the DRGR. The HUD DRGR User Manual states that a voucher cannot be created for an activity not yet approved by HUD.

However, once the subrecipient activity was approved by HUD in mid-October 2020, the correction from the GLO-Administration activity to the accurate subrecipient activity was not made. When notified of this oversight during the audit, Federal Finance made the correction to reflect the accurate subrecipient activity on June 27, 2022. It was further identified that there is no current process to ensure that expenditures that are temporarily categorized in DRGR as "GLO-Administration" are tracked, reconciled, and timely recategorized as needed.

As a result, DRGR expenses for the subrecipient activity and GLO-Administration activity were misstated and inappropriately reported in Quarterly Performance Reports during the period prior to the recategorization.

RECOMMENDATIONS FOR MANAGEMENT

GLO-CDR should ensure that subrecipient draw requests are not processed until the associated subrecipient activity has been approved by HUD and set-up in HUD-DRGR system.

MANAGEMENT'S RESPONSE

The GLO-CDR agrees to revise existing procedures to support the prompt addition of DRGR activity entries and facilitate tracking adjustments. Revised procedures may include establishing recurring contract reports to enter into DRGR and a system to track necessary adjustments.

Implementation Date: March 1, 2023

Contact(s):

Program Contacts:

Molly Keller, CDR-Deputy Director of Operations, Chief of Staff

Pam Mathews, CDR-Director of Program Integration

Elizabeth Ozuna, Financial Management-Director of Federal Accounting

CHAPTER 2: ENSURE SUBRECIPIENT CONTRACTS ARE ACCURATELY REPORTED ON THE GLO RECOVERY WEBSITE IN ACCORDANCE WITH APPLICABLE GUIDANCE

The Federal Register² requires grantees to maintain a public web site that provides information accounting for how all grant funds are used and managed/administered, including links to all action plans, action plan amendments, performance reports, citizen participation requirements, and activity/program information for activities described in the action plan, including details of all contracts and ongoing procurement policies. In addition, the GLO-CDR Implementation Manual³ requires that the subrecipient must report final procurement information for all contracts executed under the Subrecipient Agreement, with contracts of \$2,000 or more. This is intended to provide HUD and the public with information regarding how each subrecipient is spending the CDBG-DR program grant funds.

In the review of sampled Requests for Payments (RFPs) from eight subrecipients, 17 vendors were identified as having submitted invoices greater than \$2,000 for the CDBG-DR 2015 and 2016 Flood Grant Programs. 14 of these vendors (82%) were not recorded in the GLO Subrecipient Contract Reporting listing maintained on the GLO recovery website as required. In addition, there was no vendor contracts recorded for 5 of the 8 subrecipients (63%) in the GLO Subrecipient Contract Reporting listing also maintained on the website.

By not maintaining a complete and accurate listing of subrecipient vendor contracts via the GLO recovery website, the GLO may not be in compliance with HUD requirements and ensuring the accurate reporting of final procurement information is included in the Grant Closeout Report.

RECOMMENDATIONS FOR MANAGEMENT

GLO-CDR should ensure that all subrecipient contracts are accurately reported in the GLO Subrecipient Contract Reporting listing on the GLO recovery website.

MANAGEMENT'S RESPONSE

The GLO-CDR agrees to implement processes to reconcile vendor invoices submitted to the Subrecipient Contract Report listing. The processes will enhance existing actions that ensure recurring submittal of each Subrecipient's Contract Report.

Implementation Date: March 1, 2023

Contact(s):**Program Contacts:**

Esmeralda Sanchez, CDR-Director of Grant Management

Aaron Harris, CDR-Manager of Houston/Harris County Grant Management

² 81 FR 39687 (2015 Flood) and Federal Register 81 FR 83254 (2016 Flood), e. Public Web Site

³ GLO-CDR Implementation Manual – Section 13.3 Final Financial Interest Report (March 2021)

CHAPTER 3: ENSURE THE DRAW REQUEST REVIEW AND REIMBURSEMENT PROCESS ADHERES TO PROGRAM GUIDELINES

GLO-CDR and Federal Finance have established guidelines, manuals, and standard operating procedures for the review of subrecipient draw requests for reimbursement for the CDBG-DR 2015 and 2016 Flood Grant Programs. However, during the review of the draw request process and sampled draw requests, there were areas identified which should be strengthened to ensure the consistency of adherence to program guidelines and operating procedures. These areas are discussed in the following sections.

SECTION 3.1: ENSURE REQUIRED DOCUMENTATION IS COMPLETE AND APPROPRIATELY MAINTAINED

The GLO Community Development and Revitalization Implementation Manual⁴ provides guidance to ensure the effective implementation of the CDBG-DR programs and outlines policies and procedures for the timely expenditure of funds. In addition, the GLO Grant Manager Standard Operating Procedures⁵ and GLO Houston/Harris County Draw Review Manual⁶ provide grant managers with step-by-step procedures for the review and approval of draw requests submitted by subrecipients. The criteria from these manuals and procedures were used to guide the review of the subrecipient draw request process and the required documentation to support processed draw request packages.

In review the following items were identified:

Multiple draw requests did not consistently have all required supporting documents present and complete in the draw request packages, including but not limited to:

1. Start-Up Checklists and associated required supporting documents
2. Monthly Activity Status Reports
3. Subrecipient Request for Payment (RFP) Review Checklists
4. Certain GLO Forms and Reports (i.e., Draw Request Checklist – Form 16.08, Monthly HUD Contracting Report, etc.)

Multiple draw requests did not have documentary evidence to verify that grant managers consistently:

1. Completed Not-to-Exceed Calculations
2. Verified invoiced expenses from builders were within the housing caps established by the 2015/2016 Housing Guidelines
3. Verified vendor invoice service dates were within the contract period
4. Verified the requirement for two authorized signatories on the RFP

⁴ GLO-CDR Implementation Manual, Sections: 2.8.1, 3.1, 4.2.3, 4.4.1, 17.3

⁵ GLO Grant Manager Standard Operating Procedures, Sections: 9.3.2.8, 11.5.1, 11.5.2

⁶ GLO Houston/Harris County Draw Review Manual: Section 3.1

RECOMMENDATIONS FOR MANAGEMENT

GLO-CDR should ensure all required documentation is present and complete in accordance with the GLO-CDR Implementation Manual and established policies and procedures for the processing of subrecipient draw requests for payment.

MANAGEMENT'S RESPONSE

The GLO-CDR agrees with the recommendations for management and will clarify the required documentation to the Grant Manager Standard Operating Procedures. The GLO-CDR has updated the following guidance documents:

- *Houston/Harris County Draw Review Manual – Effective March 1, 2022*
- *GLO-CDR Implementation Manual – Effective November 2021*

These updates more clearly identify when and where a subrecipient submits required documentation and identify whether it is a part of the draw request package.

Additionally, the 2015 and 2016 Grants had subrecipient agreements executed before the GLO-CDR used the Texas Integrated Grant Reporting system (TIGR). Currently, subrecipient data for the 2015 and 2016 grants to facilitate the submittal of draws through TIGR to document the draw review and approval processes consistently. The system records the submittal status, program reviewer, manager reviewer, and approval dates.

Implementation Date: March 1, 2023

Contact(s):

Program Contacts:

Esmeralda Sanchez, CDR-Director of Grant Management

Aaron Harris, CDR-Manager of Houston/Harris County Grant Management

SECTION 3.2: STRENGTHEN THE MONITORING OF FORCE ACCOUNT LABOR EXPENSES

Force Account occurs when a subrecipient decides to perform specific duties using its own employees or equipment to perform CDBG-DR project related work, as opposed to using a contractor or vendor to complete those services. Per section 10.1 of the GLO-CDR Implementation Manual⁷, to ensure that a subrecipient has the staff capacity to complete the task(s) identified, the subrecipient must seek GLO-CDR approval before using force account labor during a CDBG-DR project. A cost-benefit analysis should be conducted to determine if the type of labor, the proposed scope of work, and the project description is better accomplished by procuring an outside, dedicated labor force.

During the review of the thirteen selected Force Account Labor (FAL) draw requests, none included a Request to Use Force Account Labor Form confirming GLO's review and approval for the use of FAL, nor did any provide an explanation by the subrecipient stating its ability to perform the necessary duties (i.e., cost-benefit analysis).

RECOMMENDATIONS FOR MANAGEMENT

GLO-CDR should strengthen its monitoring of subrecipient Force Account Labor documentation prior to processing expense reimbursements.

MANAGEMENT'S RESPONSE

The GLO-CDR agrees to clarify controls within the Implementation Manual and Grant Manager Standard Operating Procedures. Improvements may define documents required to be maintained or submitted for force account labor expense reimbursements. Currently, the Implementation Manual from May 2022 states the following:

"The subrecipient must ensure they have the staff capacity to complete the task(s) identified, to implement a project using force account labor in a CDBG-DR and/or CDBG-MIT project... If a decision to use force account is made after the application phase, the subrecipient must notify the grant manager in writing before associated activities are underway."

The GLO-CDR does not require a specific approval process for force account labor. Additionally, draw requests do not explain the subrecipient's ability to perform the labor or cost-benefit documentation. These actions would occur in advance of the draw submittal. Subrecipients are responsible for maintaining adequate payroll records and submitting summarized documentation that can be requested for monitoring or the draw review process.

Implementation Date: March 1, 2023

Contact(s):

Program Contacts:

Esmeralda Sanchez, CDR-Director of Grant Management

Aaron Harris, CDR-Manager of Houston/Harris County Grant Management

⁷ GLO-CDR Implementation Manual, Chapter 10 – Force Account Labor, Section 10.1 Introduction

APPENDICES

APPENDIX A

OBJECTIVE

The objective was to determine whether the Community Development and Revitalization program has effective controls and processes to ensure the Single-Family Assistance programs for the 2015 and 2016 flood grants are adequately administered in accordance with federal and state requirements.

SCOPE & METHODOLOGY

The scope of the audit included a review of Community Development and Revitalization program's controls and processes for the administration (grant management, financial management, and reporting) of the 2015 and 2016 flood grant programs during the period September 1, 2019 - March 31, 2022.

The methodology consisted of observing processes, interviewing knowledgeable staff, diagramming the process flow for subrecipient grant draws, collecting information, performing tests, and analyzing and evaluating the information.

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

DISTRIBUTION LIST

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