



A Legislative Summary Document Regarding Department of Housing and Community Affairs

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State Auditor's Observations

In fiscal years 1998 through 2001, the Department of Housing and Community Affairs (Department) did not have adequate internal controls in place to monitor the subrecipients in its HOME Investment Partnership Program. An audit of the HOME program for fiscal year 2002 is underway.

Four of seven fiscal year 2001 performance measures we audited were inaccurate; three others were certified with qualification.

The Department has implemented reasonable processes for estimating revenues presented in its Legislative Appropriations Request (LAR). However, the Department does not have written procedures for estimating expenditures. For ongoing activities, it uses the most recent budget request and extends that into the next biennium. The amounts reported in the previous LAR for estimated expenditures for 2000 and 2001 were significantly less than the actual expenditures. Expenditures were higher than estimated (\$28 million for fiscal year 2000 and \$50 million for fiscal year 2001) primarily because the Department was granted additional spending authority by the federal government after the LAR estimates were prepared.

The Sunset Advisory Commission recently completed a review of the Department and determined that the Department has made sufficient progress in implementing the requirements of Senate Bill 322 (77th Legislature) pertaining to performance of the Governing Board, processes for assessing needs and allocating resources, and procedures to ensure fair access to services. Sunset Advisory Commission staff recommended that the Department be continued for 12 years.

Prepared for the 78th Legislature
by the State Auditor's Office

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SAO No. 03-366

This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

Department of Housing and Community Affairs

SAO Contact: Valerie Hill
(512) 936-9500

Financial Profile

Revenue Projections

The Department of Housing and Community Affairs (Department) multiplies the number of licenses, fees, and permits issued by applicable rates to estimate revenue from those sources. The Department's 2004–2005 Legislative Appropriations Request (LAR) includes fee increases in manufactured housing licensing, fees, and inspections.

The Department bases federal revenues on current year actual revenues and with the assumption that additional federal funding will not be available. However, the Department regularly monitors the federal programs and legislation to ensure that it has the opportunity to request any funding that becomes available.

Expenditure Analysis

The Department's managers and directors analyze legislation affecting their programs to determine whether additional resources are required to meet legislative mandates. For new activities, the relevant Department director or manager develops estimates on a case-by-case basis and adds the estimates to the baseline.

We noted that the Department actually spent approximately \$28 million and \$50 million more than reported in the LAR as estimated for fiscal years 2000 and 2001, respectively. Programs that account for the majority of these underestimates in the LAR include the HOME, Community Development Block Grants (CDBG), and Housing Trust Funds programs. Expenditures for these types of federal funds can span several years and affect expenditures in years other than when the funds were initially made available. Additionally, the Department received emergency funding to assist low-income households facing significantly higher utility costs for heating and cooling. Grants of this type cannot be forecasted, as the availability is uncertain.

The table below shows the Department's expenditures by Comptroller of Public Accounts (Comptroller) category as reported by the Department in the Uniform Statewide Accounting System (USAS) for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the Department has spent its funds. We obtained explanations from the Department for fluctuations across years that appeared unusual

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Intergovernmental Payments (Note A)	\$ 119,437,559	\$ 40,664,893	\$ 9,532,800
Public Assistance Payments (Note B)	104,993,701	91,677,076	53,399,465
Salaries and Wages ^a	14,312,139	14,733,048	15,092,679
Interfund Transfers/Other (Note C)	3,618,526	4,198,182	1,176,140
Employee Benefits	2,893,219	3,028,467	3,366,160
Professional Services and Fees	1,990,115	1,868,797	1,488,469
Rentals and Leases	1,886,438	2,121,521	2,025,705
Other Expenditures	941,871	1,071,121	1,317,470
Travel	796,330	849,711	845,934
Repairs and Maintenance	437,966	687,703	451,980
Supplies and Materials	319,260	349,927	363,395
Capital Outlay	201,124	345,746	390,581

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Claims and Judgments	154,252	363,009	481,755
Printing and Reproduction	149,679	177,308	170,873
Communications and Utilities	91,599	101,767	103,755
Interest/Prompt Payment Penalties	786	1,952	7,168
Total Expenditures	\$ 252,224,564	\$ 162,240,228	\$ 90,214,329
<small>^a The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards. Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.</small>			

Note A - Intergovernmental payments consist primarily of payments to housing authorities of Texas cities, counties, and councils of government. Public assistance payments are made to individuals and nonprofit organizations such as community action agencies. Expenditures for years 2001 and 2002 will rise as programs are completed. Various factors, including the decision to delay awards at the Department level and the time it takes to complete some projects, result in the variances shown. For example, it may be appropriate to charge expenditures made in the current year to either of the two prior years. As a result, these categories show a decrease that does not reflect the extent to which expenditures will be made. Funding for HOME, CDBGs, the Housing Trust Fund, and the Low-Income Housing Energy Assistance Program are one to two years behind and account for much of the expenditure lag seen here.

Note B – Decreases in the expenditures for Public Assistance Payments are affected similarly as Intergovernmental Payments, as indicated in Note A. In addition, Public Assistance Payments can be affected by the availability of federal funds. In appropriation years 2000 and 2001, the Department received emergency funding to assist low-income households with rising energy bills. Decreases in these types of payments in appropriation year 2002 accounted for the largest decrease in this expenditure category.

Note C – Interfund Transfer/Other represents various transactions, including transfers and adjustments made by the Comptroller.

Reconciliations to USAS and ABEST

The Department reconciles its internal accounting system to USAS monthly. The Department also reconciles USAS to the Automated Budget and Evaluation System for Texas (ABEST) quarterly. In addition, the Department reconciles grant information recorded in its internal accounting system to grant information recorded in USAS three or four times a year.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

Ongoing Audit of Community Services Block Grant, Emergency Shelter Block Grant, Energy Assistance, and Section 8 Programs at the Department of Housing and Community Affairs.

The State Auditor’s Office will release a report in early 2003 on various poverty and energy assistance programs at the Department of Housing and Community Affairs.

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State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001¹

(Issued February 2002)

Subrecipient Monitoring – Allowable Costs/Activities

The audit procedures performed indicate that there is a lack of documentation to support soft costs incurred by the Department of Housing and Community Affairs' (Department) HOME Investment Partnerships Program subrecipients. The total known questioned costs were \$29,408. Interviews with the Department's HOME program management indicated that the Department did not require supporting documentation for soft costs during fiscal year 2001. Because no documentation was maintained, the estimated questioned cost is \$2,314,574.

Status of Audit Recommendations as of November 30, 2002

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.

Subrecipient Monitoring – Monitoring Visits

The Department's Compliance Division does not have a management control in place to track visits undertaken and reports that are still outstanding for the HOME program. Because an employee retired, the Department did not notice that a report had not been issued for a May visit until October 2001. Monitoring visit dates are not consistently updated in the Genesis database. KPMG audit procedures included comparing the information per monitoring file to the information entered into the Genesis database for a sample of 30 items. This process identified one instance in which the date of a monitoring visit was incorrectly entered and one instance in which the monitoring dates had not been entered at all.

Allowable Costs

An employee of one of the Low Income Home Energy Assistance Program's (LIHEAP) subgrantees, Sheltering Arms, embezzled funds over a period of five years. This later came to the attention of Sheltering Arms' management. As a result of a review by Sheltering Arms' independent auditors, questioned costs totaling \$183,400 for LIHEAP and \$28,259 for the Weatherization Assistance for Low Income Persons Program were identified (a total of \$211,659). The Department has not recouped those funds and has not adjusted its records for questioned costs originating in prior years. The Department reported questioned costs totaling \$171,284 to the U.S. Department of Health and Human Services, and it reported questioned costs totaling \$28,259 to the U.S. Department of Energy. This total questioned cost of \$199,543 is \$12,116 less than the total amount identified by the independent auditors.

Subrecipient Monitoring – Allowable Costs/Activities

(Prior audit issue in reports for fiscal years 2000 and 1999 - Allowable costs)

Subrecipients do not have supporting documentation for HOME funds requested to pay for incurred administrative costs. Although we did not identify questioned costs in fiscal year 2000, we questioned \$14,600 in fiscal year 1999. Additionally, in a related report, the U.S. Department of Housing and Urban Development questioned \$408,491 in costs because the Department did not have acceptable support for certain administrative charges made to the HOME program.

Subrecipient Monitoring

(Prior audit issue in reports for fiscal years 2000, 1999, and 1998)

The Department does not have adequate internal controls in place to monitor the subrecipients of the HOME Investment Partnership Program.

¹ Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345.

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An Audit Report on the Integrated Statewide Administrative System at Selected Agencies

(Report No.01-013, January 2001)

The Department of Housing and Community Affairs' (Department) Integrated Statewide Administrative System (ISAS) project is behind schedule, over budget, and has yet to fully provide the expected benefits for which ISAS was selected as the internal financial management system.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
The Department has reported the following:	
Implemented	1
Total recommendations	1

The Department's Biennial Operating Plan for fiscal years 2000–2001 incorrectly states that the ISAS software installation project is complete.

Although the installation of ISAS is not complete, those portions of the software that have been installed appear to be functioning correctly and reliably.

A Follow-up Report on Two Reviews of Controls Over Investment Practices at State Investing Entities

(Report No. 01-017, January 2001)

Management at the Department of Housing and Community Affairs implemented our recommendation to provide quarterly investment reports to the Board and its Finance Committee in a more timely manner.

Performance Management

Performance Indicators Used by Management

In addition to tracking quarterly performance for the Legislative Budget Board (LBB), the Department of Housing and Community Affairs (Department) uses internal measures to ensure that it is achieving its mission, goals, and objectives.

The Department operates multiple programs with external funding sources (such as the federal government) and must meet the specific goals, objectives, and benchmarks set by those sources. The process of reporting on these targets serves a dual purpose, in that management not only meets grantor requirements but also uses the reports generated to measure progress internally.

Within the Department, standard operating procedures require that performance be measured for each program, and program directors prepare monthly executive briefs for presentation to the Executive Director and Deputy Executive Director. In addition, the Executive Director has the opportunity to discuss performance progress or problems at meetings of the governing board.

Estimating Performance Targets

Each program area estimates the performance of the measure based on estimated funding levels, estimated costs, anticipated caseloads, and needs analyses. The percentage of performance of the Outcome measure is a result of the corresponding Output measures.

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Directors of programs and divisions at the Department are responsible for preparing worksheets for the LAR and for meeting performance targets. According to the Chief Financial Officer (CFO), the CFO and other members of Executive Management review the Legislative Appropriations Request before it goes to the LBB.

Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results included in *An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities* (Report No. 03-008, November 2002) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2001	A	Affordable Housing	Percent of Households/Individuals of Moderate Income Needing Affordable Housing that Subsequently Receive Housing or Housing-Related Assistance	Certified with Qualification
2001	A.1.2	Home Program	Projected Number of Very Low and Low Income Households Benefiting from HOME Investment Program Loans and Grants	Certified with Qualification
2001	B	Community Development	Percent of Small Communities' Population Benefiting from Public Facility, Economic Development, Housing Assistance, and Planning Projects	Inaccurate
2001	C	Poor and Homeless Programs	Percent of Persons in Poverty that Received Homeless and Poverty Related Assistance	Inaccurate
2001	C.1.1	Poverty-Related Funds	Number of Persons Assisted that Achieve Incomes Above Poverty Level	Inaccurate
2001	E.1.3	Enforcement	Number of Complaints Resolved	Certified with Qualification
2001	E.1.3	Enforcement	Average Number of Days for Complaint Resolution	Inaccurate
Total Measures Certified Without Qualification^a				0/7 (0%)
Data Reliability Percentage (Certified and Certified with Qualification)				3/7 (43%)
^a The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].				

Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevent Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

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Quality Assurance Team Reviews

Conducted by the Legislative Budget Board and State Auditor's Office

Completed Projects

Quality Assurance Team Annual Report – January 2002

The Department of Housing and Community Affairs completed the Client/Server Accounting System project at a total cost of \$1,978,753.

Disaster Preparedness

We gathered information from the Department of Housing and Community Affairs (Department) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the Department's plans. Our objective was only to provide the information reported by the Department.

The Department has an Information Systems Disaster Recovery Plan that was updated in March 2002. It also has a Contingency/Disaster Recovery Plan that describes the actions staff should take in emergency situations. The Department was updating this plan and expected it to be complete in early October 2002. High-level components of the Information Systems Disaster Recovery Plan will be integrated with the revised Contingency/Disaster Recovery Plan.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Housing and Community Affairs between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

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Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 679,674	\$ 725,569	\$ 740,737
Out-of-State Travel	118,173	124,142	101,524
Foreign Travel	0	0	0
Other Travel Costs	(1,517)	0	3,673
Total Travel Expenditures	\$ 796,330	\$ 849,711	\$ 845,934
Limit on Travel Expenditures (Cap)	976,381	976,381	100,383 ^a
Expenditures in Excess of Cap	\$ 0	\$ 0	\$ 1,141

^a Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by the Department and approved by the Legislative Budget Board (LBB) in accordance with the General Appropriations Act. LBB adjusted the Department's 2002 cap downward during May 2002 by \$17,790 due to the transfer of programs from the Department to the Office of Rural Community Affairs.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.