

**Leslie Wilks Garcia, C.P.A., C.F.E.**  
*First Assistant County Auditor*

**Errika Perkins, C.P.A., C.I.A.**  
*Chief Assistant County Auditor*  
*Audit Division*



1001 Preston, Suite 800  
Houston, Texas 77002-1817  
(832) 927-4600

Fax (713) 755-8932  
Help Line (832) 927-4558

**MICHAEL POST, C.P.A., M.B.A.**  
**HARRIS COUNTY AUDITOR**

November 13, 2020

Dr. Adrienne M. Holloway  
Executive Director  
8410 Lantern Point Dr.  
Houston, Texas 77054

Dear Dr. Holloway:

The Harris County Auditor's Office - Internal Audit Division, has completed an audit of the Harris County Community Services Department's (CSD) Community Development Block Grant (CDBG) - Entitlement Grants Program for the 12 months ended February 29, 2020. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Post  
County Auditor

Attachment

cc: District Judges  
County Judge Lina  
Hidalgo  
Commissioners:  
R. Jack Cagle  
Rodney Ellis  
Adrian Garcia  
Steve Radack

Joshua Stuckey  
Craig Atkins  
Graylin Guidry  
Dr. Umair A. Shah  
William Hudson  
Gwen Sims

AUDIT REPORT

**CDBG - ENTITLEMENT GRANTS**

NOVEMBER 13, 2020

---

## Executive Summary

---

### OVERALL CONCLUSION

Based on the testwork performed for the CDBG - Entitlement Grants Program for the 12 months ended February 29, 2020, internal controls over compliance with the requirements set forth by the U.S. Office of Management and Budget (OMB) – Uniform Guidance, Title 2 Code of Federal Regulations (CFR) Part 200 and Title 24 CFR Part 570, were overall found to be effective. However, controls related to purchase order (PO) amendments and invoice documentation need improvement. The issues below have been discussed with the Harris County Public Health Services Department (PHS) and Harris County Purchasing Department (Purchasing), and management action plans have been developed, which will address the issues identified by December 11, 2020.

---

### SCOPE AND OBJECTIVE

The Internal Audit Division conducted an audit of CSD's CDBG – Entitlement Grants program to assess the effectiveness of internal controls over compliance in the following areas:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Eligibility
4. Procurement
5. Sub-recipient Monitoring

The audit reviewed internal controls and data for the 12 months ended February 29, 2020.

---

### SUMMARY OF AUDIT ISSUES

1. PO amendments for the Nuisance Abatement Program were processed against expired vendor contracts.
2. An invoice was processed without supporting documentation because of a control gap within the PHS expenditure approval process related to the Nuisance Abatement Program.

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages.

## AUDIT ISSUES

### **ISSUE #1: Lack of Controls Surrounding PO Amendments**

**What is the Issue:** A PO for the PHS Nuisance Abatement Program was extended and increased in amount, although the associated contract was expired. The extension allowed \$18,759 in vendor invoices to be charged against the expired contract. The approved contract term ran from August 1, 2013 to July 31, 2014, with four, one-year renewal options and therefore, ended on July 31, 2018. However, Purchasing approved and processed the extension on February 4, 2019.

At the time of the above extension, a new contract had been awarded to the vendor effective August 1, 2018. However, Purchasing did not associate the new contract with the PO extension.

**What is Expected:** Per Section 7.1 of the Purchasing Manual, “upon receipt of a requisition, the Purchasing Office will issue a purchase order for the appropriate value against an existing term contract. The user department may make releases against the PO not to exceed the total amount of the PO. The Purchasing Office maintains contract files, renews or rebids term contracts, and administers contracts related to the purchase of goods and services.”

**Why it Matters:** PO extensions associated with expired contracts can lead to inappropriate payments to vendors and a departure from required procurement procedures. There is also a financial liability risk that the County’s grant expenditures may be disallowed and affect their ability to obtain future grant funding.

**Why it Happened:** There were no system controls in IFAS, the County’s financial system at the time, to prevent a PO extension beyond a contract term date. In addition, PHS management approved a PO extension and Purchasing did not follow manual controls to validate that the active PO was associated with a valid contract.

**What Action(s) are Suggested:** Purchasing should evaluate their current controls for processing POs against expired contracts to ensure compliance with section 7.1 of the Purchasing Manual.

### **MANAGEMENT’S ACTION PLAN**

**Responsible Party:** Harris County Purchasing Agent

PeopleSoft’s Purchasing module has built-in controls to prevent the creation of purchase orders against expired contracts. The above issue should not occur with PeopleSoft.

**Due Date:** COMPLETED

## AUDIT ISSUES

### **ISSUE #2: Lack of Required Supporting Documentation**

**What is the Issue:** An invoice for the Neighborhood Nuisance Abatement Program (NNAP) was approved to be paid with funds by PHS without proper supporting documentation. An estimate was submitted by the vendor, Cherry Moving Company, for demolition services; however, the vendor's invoice was 81% over the vendor's estimate and the invoice did not include location specific information of their demolition services.

**What is Expected:** PHS has NNAP Standard Operating Procedures (SOP) in place that require documentation to be entered into the NNAP system in specific detail (Section 13.1). The lack of supporting documentation on the noted invoice means that further investigation should have been conducted prior to processing and approving the invoice.

Also, 2 CFR 200.403 (g) states that, "except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards, costs should be adequately documented." Documentation is considered adequate when it provides enough detail so that persons who did not perform the original work will have a full understanding of the work that was done.

**Why it Matters:** Lack of proper supporting documentation could result in unallowable costs and financial liability to the County. Proper supporting documentation is critical to providing justification for allowable expenditures and maintaining compliance with federal requirements.

**Why it Happened:** Nuisance Abatement Program staff confirmed that the paid invoice amount was for demolition of an additional structure that was not included in the original estimate. No new estimate for the second structure nor supporting documentation was obtained or reviewed by PHS prior to approving the invoice for payment.

**What Action(s) are Suggested:** PHS management should strengthen internal controls to ensure funds are properly spent in compliance with 2 CFR 200.403 (g) requirements and their internal policy and procedures. Specifically, it is recommended that a process be implemented to provide finance staff with proper supporting documentation for review prior to processing invoices.

### **MANAGEMENT'S ACTION PLAN**

**Responsible Party:** Harris County Public Health Services Department

The issue in question stems from an initial inspection of a property where the initial complaint contained one structure. Upon secondary inspection, there were actually 2 structures to demolish, resulting in an increase in the initial estimate. The contractor, Cherry Demolition, submitted an additional quote that was not included in the original file nor was it documented that there would be a change in scope prior to the submission of the final invoice.

Harris County Public Health will institute three control measures:

1. All cost estimates must be approved by the Nuisance Abatement Specialist and the Water, Abatement and Compliance Manager for the Environmental Public Health Division prior to the notice to proceed is issued by the program.
2. All change orders or scope changes prior to completion of work will be accompanied by an explanation for each change in scope.
3. All approved cost estimates, scope change documents and approvals must be included with the final invoice prior to submission to the Accounts Payable Department of the Auditor's Office for payment.

**Due Date:** December 11, 2020

## BACKGROUND

The CDBG Entitlement Program provides annual federal grants on a formula basis to entitled cities and counties to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low and moderate-income persons. The program is authorized under Title 1 of the Housing and Community Development Act of 1974, Public Law 93-383, as amended; 42 U.S.C.-530.1 et seq.

The rules and regulations governing the activities of the CDBG Program include the laws enacted by Congress and the Regulations created by the US Department of Housing and Urban Development (HUD); 24 CFR Part 570 – CDBG and Uniform Guidance 2 CFR Part 200. Harris County, having been awarded CDBG funds, must comply with the above federal regulations. Below is a summary of the amount of CDBG funds awarded to Harris County over the past five years.



\*The above graph was created by the auditor based on information obtained from the USAspending.gov website.

CSD is responsible for administering the County's CDBG Entitlement Program. The grant process begins with the development of the County's Consolidated Plan, which is required in order to receive funding for the applicable program years. Upon HUD approval, CSD receives an award and an Annual Action Plan (AAP) is developed. The AAP includes the projects selected for funding in order to meet the County's housing and community development goals.

Projects are identified through proposals from community based not-for-profit organizations (sub-recipients) and other County Departments. Various projects are approved and contracts are awarded to sub-recipients. PHS historically has received CDBG funding for two programs, NNAP and the Lead Based Paint Hazard Reduction Program.

Throughout the program year, selected projects are monitored by CSD based on the results of a programmatic and financial risk assessment to ensure compliance with HUD regulations and effective use of program funds. On-site reviews as well as desk reviews of sub-recipient's monthly, semi-annual, and annual reports are conducted to identify any areas of concern and compile a Monitoring Results Letter.

## ACCOUNTABILITY

The work performed required our staff to exercise professional judgment in completing the engagement's scope. As the engagement's scope did not include a detailed examination of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.