

Harris County Auditor's Office



MEMORANDUM

To: Lina Hidalgo, County Judge
Rodney Ellis, Commissioner Precinct 1
Adrian Garcia, Commissioner Precinct 2
Tom Ramsey, Commissioner Precinct 3
R. Jack Cagle, Commissioner Precinct 4

Leslie Wilks Garcia, First Assistant
County Auditor
Christian Menefee, County Attorney
David Berry, County Administrator

From: Mike Post, Harris County Auditor *MPT*
Errika Perkins, Chief Assistant County Auditor- Audit Division *EP*

CC: Alex Triantaphyllis, County Judge's Office
Brandon Dudley, Precinct 1
Mike Lykes, Precinct 2
Lynn Blue, Precinct 3
Cheryl Gunther, Precinct 4
Jonathan Fombonne, County Attorney's Office

Leah Barton, Office of County Admin
Shain Carrizal, HRRM

RE: Follow-up on the Guidehouse Monitoring Report related to the Harris County (County) COVID-19 Rental Assistance Program administered by BakerRipley

Date: February 25, 2022

EXECUTIVE SUMMARY

The Internal Audit Division evaluated the status of corrective measures taken to address issues identified in the May 2021 BakerRipley compliance monitoring report from Guidehouse. The scope of the review included:

- Determining if proper project oversight was implemented
- Providing a status of BakerRipley's recovery of overpayments
- Determining whether BakerRipley's policies and procedures align with the contract requirements
- Evaluating the effectiveness of internal controls over BakerRipley's system of record

A summary of observations is as follows:

1. While the County took remedial actions based on Guidehouse's draft monitoring report, not all non-compliance observations were fully addressed.
2. An estimated \$405,909 in overpayments has not been collected.
3. BakerRipley did not investigate 562 instances in which rental assistance recipients had other housing subsidies. This resulted in a possible duplication of benefits totaling \$531,505.
4. BakerRipley's policies and procedures were missing key program requirements.
5. BakerRipley has not implemented proper accounts receivable practices.

BACKGROUND

In June 2020, Commissioners Court approved the Rental Assistance Program (Program) as recommended by the Coronavirus Aid, Relief, and Economic Security (CARES) Act Committee. A total of \$15 million in CARES Act funds were set aside to provide rental assistance to County residents who were impacted by hardships resulting from COVID-19. This funding was increased to \$40 million in August 2020 and decreased to \$30 million in December 2020. The program was initially designed to provide rental assistance of up to \$1,000 for the period April through August 2020. However, the maximum household award was later increased to \$1,900 and the period was extended to September through November 2020.

The County contracted with BakerRipley to administer the Program in July 2020. The contract created a subrecipient relationship between the County and BakerRipley, whereby BakerRipley reported to the County and the County reported to the United States Treasury Department. Per 2 CFR 200.332(d)(2) the pass-through entity, Harris County, is responsible for following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal grants provided to the subrecipient that are detected through audits, on-site reviews, and written confirmation from the subrecipient.

Payments to BakerRipley were based on a percentage of the total program funds dispersed to applicants, up to \$2.25 million. Additionally, the contract outlined specific compliance requirements for the Program administration.

After the Program ended in December 2020 the County contracted with BakerRipley for two additional rental assistance programs. The Emergency Rental Assistance Program (ERAP) Round 1 was funded for a total of \$28.4 million, with BakerRipley's compensation at \$1.74 million. The ERAP Round 2 was funded for a total of \$33.2 million, with BakerRipley's compensation at \$2.42 million. The current ERAP 1 and ERAP 2 contracts with BakerRipley are in effect through March 2022.

The Office of County Administrator provided the following context, "The CARES program was announced in April and the agreement with BakerRipley was approved in July with a quick deadline to get all the money out by December 2020. Program design, system design, program administration and compliance monitoring all had to be collapsed and run concurrently to meet the program deadlines. Guidehouse's report was only delivered well after CARES was essentially concluded. Solutions to many of the findings were incorporated into ERA 1 and 2, which at that point had a higher impact. Guidehouse was hired for ERA 1 and 2 with the explicit expectation they would work with Baker Ripley and Catholic Charities to improve the compliance aspects of the program based on their report."

RESULTS

OBJECTIVE 1: DETERMINE IF PROPER PROGRAM OVERSIGHT WAS IMPLEMENTED

OBSERVATION 1:

The County's Office of Management and Budget hired the consultant, Guidehouse, to monitor compliance with the program's administration requirements. The Guidehouse report noted the following:

- Overpayments of program funds were identified in several areas and there was no evidence to confirm the funds were used appropriately.
- It does not appear that BakerRipley administered the program within Federal and County requirements.
- BakerRipley did not collect documentation of past due rent amounts to support the rental assistance provided.
- BakerRipley did not confirm whether the Program applicants were participating in other local, state, or federal housing programs or were at least 18 years old or otherwise qualified.

The County did not share the draft Guidehouse compliance monitoring report with BakerRipley. The Office of County Administrator indicated that BakerRipley was notified of the findings via numerous meetings and emails where corrective action was requested. They also received documentation of the monitoring findings in Excel format.

RECOMMENDATION 1:

The County's Office of Management and Budget should require BakerRipley to issue written management action plans to address findings from compliance monitoring reports.

OBJECTIVE 2: PROVIDE A STATUS OF BAKERRIPLEY'S RECOVERY OF OVERPAYMENTS

OBSERVATION 2.1:

Guidehouse's workpapers identified Program overpayments totaling \$864,511. Guidehouse provided supporting documentation to BakerRipley related to overpayments identified in the report on March 15, 2021. Internal Audit follow up identified \$458,602 (53%) of the funds were recovered by BakerRipley and \$405,909 remained outstanding.

Overpayment Status – HCAO Follow Up			
Overpayment Category	Identified by Guidehouse	Recouped by BakerRipley	Outstanding
Overpayments to Landlords	\$203,417	\$161,305	\$42,112
Duplicate payments	\$418,190	\$186,172	\$232,018
Payments over \$1,900	\$87,724	\$35,588	\$52,136
Payments for months not owed	\$10,609	\$7,287	\$3,322
Payments beyond allowable timeframe	\$144,571	\$68,250	\$76,321
Totals	\$864,511	\$458,602	\$405,909

Details related to the overpayments are as follows:

- Overpayments to landlords - 207 cases:
 - Landlords were required to verify the payment amounts. Because payments were issued quickly, it left the landlords without time to review the application approvals, resulting in overpayments.
- Duplicate payments - 317 cases:
 - BakerRipley’s system of record did not properly identify multiple applications for the same household causing duplicate payments.
- Payments were issued over the maximum amount of \$1,900 - 376 cases:
 - Payments were intended to be capped at \$1,900. BakerRipley failed to communicate this requirement to the developers of the system of record. BakerRipley subsequently modified their system of record to properly cap payments.
- Payments for months not owed - 11 cases:
 - There were instances where BakerRipley staff updated the system improperly creating payments for months not owed.
- Payments beyond allowable timeframe - 226 cases:
 - The Program was intended to only allow payments for assistance up to November 2020. However, assistance payments were made past the allowable date. BakerRipley failed to communicate this requirement to the developers of the system of record.

RECOMMENDATION 2.1:

BakerRipley should provide updates on collections of overpayments.

OBSERVATION 2.2:

A review of 60 overpayments identified three overpayments that did not have documentation to show that a refund request letter was sent. According to BakerRipley, the information was not available because the responsible employee had since terminated, and their emails could not be accessed.

RECOMMENDATION 2.2:

To ensure BakerRipley has access to all refund requests, employees should be required to upload refund request documentation or communication into the appropriate system, per BakerRipley's policy.

OBSERVATION 2.3:

Guidehouse identified 562 applicants whose applications indicated they were receiving Public Housing assistance. These applicants received Program assistance in the amount of \$531,505. This amount potentially represents duplication of benefits and a possible contract violation, as well as a violation of the Robert T. Stafford "Act". Section 312 of the Act states that a person, business concern, or other entity will not receive federal financial assistance with respect to any part of such loss as to which the applicant has received financial assistance under any other program or from insurance or any other source.

BakerRipley responded that the tenant self-certified in their application that they did not receive any other housing benefits. However, BakerRipley did not collect self-certifications for the 562 applicants. With the launch of the ERAP 1 program in February 2021, the program's system of record started collecting self-certification documentation.

RECOMMENDATION 2.3:

As of 2/8/22 BakerRipley was researching the 562 cases to determine if there are duplication of benefits. BakerRipley has deemed that no requests for refunds are necessary at this point. BakerRipley should complete the research in progress and provide a timely update to determine whether an overpayment has occurred.

OBJECTIVE 3: DETERMINE WHETHER BAKERRIPLEY'S POLICIES AND PROCEDURES ALIGN WITH CONTRACT REQUIREMENTS

OBSERVATION 3.1:

Guidehouse found that BakerRipley did not include the following key program requirements in their policies and procedures:

- Evidence of past due rent amount(s)
- Verification that the applicant is 18 years or older

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- Certification that no other housing subsidies (local, state, or federal) are received

After Internal Audit's inquiry, these requirements were added to BakerRipley's *Tenant Eligibility Policy* (No. 2005), which was revised as of December 2021. The new Policy aligns with ERAP 1 and ERAP 2.

RECOMMENDATION 3.1:

BakerRipley should ensure that policies are updated in a timely manner to match program requirements and are immediately distributed to staff. The County is required to monitor the activities of the subrecipient as necessary to ensure that the grant funds are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the grant; and that grant performance goals are achieved (2 CFR 200.332(d)).

OBSERVATION 3.2:

Guidehouse noted that BakerRipley recorded the receipt of funds when overpayments were refunded by the landlord but did not record a receivable when the landlord notified BakerRipley of an overpayment. As a result, BakerRipley did not maintain an accurate record of overpayment amounts due from landlords, which is still their current process. However, BakerRipley's contract requires them to maintain an accounting system in accordance with generally accepted accounting principles.

RECOMMENDATION 3.2:

BakerRipley should follow accounting principles regarding landlord overpayments. As Guidehouse recommended, accounts receivable should be recorded in the accounting system with the corresponding allowance account and bad debt expense account.

The County's Office of Management and Budget should follow up with BakerRipley to ensure compliance with the contract and to provide a list of uncollected overpayments to the County Auditor's Office for proper recording. The County's has a duty to monitor and hold its subrecipient, BakerRipley, accountable for compliance with Federal statutes, regulations, and the terms and conditions of the grant award (2 CFR 200.332).

OBJECTIVE 4: EVALUATE THE EFFECTIVENESS OF INTERNAL CONTROLS OVER BAKERRIPLEY'S SYSTEM OF RECORD.

OBSERVATION 4:

Connective is the consultant for BakerRipley's system of record. Through interviews with Connective, Internal Audit determined that certain issues identified by Guidehouse were not a result of system limitations but were due to BakerRipley's failure to communicate specific requirements to Connective. Upon proper communication from BakerRipley to Connective, the issues were promptly remediated.

RECOMMENDATION 4:

Prior to awarding subrecipient contracts, the County should communicate expectations regarding key elements to be included in the program system of record and should evaluate the potential subrecipient's ability to comply with these expectations. The County should routinely monitor the system of record to verify continued compliance with contract requirements.

BakerRipley should communicate all contract requirements with consultants before commencement of the consultant's work. Any key elements should be part of the consultant's scope of services.

INTERNAL AUDIT STANDARDS

We conducted our engagement in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.