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

January 31, 2023

Dear Ms. Thao Costis, Interim Executive Director of the Community Services Department:

The Harris County Auditor's Office Audit Division has completed an audit of the Community Development Block Grant-Disaster Recovery (CDBG-DR). The results of the engagement are in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post-Engagement Survey. We look forward to your feedback. If you have any questions, please contact Errika Perkins, Chief Assistant County Auditor, 713-274-5673 or me.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post
County Auditor

Report Copies:

District Judges
County Judge Lina Hidalgo
Commissioners:
Adrian Garcia
Lesley Briones
Rodney Ellis
Tom Ramsey
Christian Menefee
David Berry



INTERNAL AUDIT REPORT
**COMMUNITY DEVELOPMENT BLOCK GRANT –
DISASTER RECOVERY**

JANUARY 31, 2023

Executive Summary

OVERALL CONCLUSION

Overall, controls related to the administration of the CDBG-DR grant for the four programs included in our scope were found to be effective. However, opportunities for improvement were identified regarding homeowner reimbursement payments, long-term monitoring, sub-award contracts, and user access to the RecoveryTrac (RT) case management application. The issues were discussed with the Harris County Community Services Department (CSD) Management, and management action plans have been developed which will address the issues identified by July 31, 2023.

SCOPE AND OBJECTIVE

The scope of the audit was for the 12 months ended, April 30, 2022. The objective was to evaluate the Affordable Rental Program (ARP), Method of Distribution (MOD), Competitive Request for Proposal (CRFP), and Homeowner Reimbursement Program (HRP) for compliance with the following federal grant requirements for CDBG-DR grant:

- Allowable activities and costs
- Period of performance
- Procurement, suspension, and debarment
- Subrecipient and contractor monitoring
- System access restrictions and monitoring

SUMMARY OF AUDIT ISSUES

Significant concerns are as follows:

- Texas General Land Office (GLO) benchmarks for MOD were not met.
- HRP award amounts were calculated incorrectly and documentation for adjustments to award amounts was not consistently maintained.

These and other audit issues along with management's action plans and background information related to the audit are discussed in detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to Harris County's CDBG-DR program.

AUDIT ISSUES

ISSUE #1: Quarterly Benchmarks Were Not Achieved [HIGH]

What is the Issue: MOD Program's draw submittal benchmarks for quarters two and three of year 2022 were not met by 15% and 25% respectively.

Why it Happened: Program expenditures were not spent at the anticipated rates due to delays in the associated MOD projects. According to program staff, delays were due to:

- Covid-related issues
- Challenges during the design phase
- General contractors' non-compliance with the Davis Bacon Act and related acts
- Shortages of construction resources due to winter storm Uri

Why it Matters: When the benchmarks set by GLO are not met, there is a risk that CDBG-DR program expenditures may not stay on track to achieve program goals by the required dates. Additionally, GLO has the option to withdraw the funding from CSD programs, which would result in a loss of funding to the County.

What is Expected: Per the contract between GLO and CSD, if a CDBG-DR program benchmark is not achieved, CSD may be required to submit a recovery action plan detailing steps for how they will complete the late benchmark and return to the approved schedule.

What Actions are Suggested: CSD should implement the action plan approved by GLO. Additionally, CSD should monitor MOD program for compliance with new benchmark expectations that are included in the action plan.

MANAGEMENT'S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD, with Greg Frazier, Director of Non-Housing DR, as point of contact

CSD Management has submitted to the GLO "corrective action plan" for the second quarter of 2022 and has created a new "corrective action plan" that is intended to address the second and third quarters of fiscal year 2022 for the Method of Distribution (MOD) Non-Housing Programs.

The corrective action plan discusses and includes:

- the conditions that led to not meeting the benchmarks (project by project),
- proposes a "reset" to the contractual benchmarks, and
- The requirement for MOD program staff performs a 90 day "look forward" for each of the projects to determine if the upcoming benchmarks will be met or are achievable.

Finally, these actions will be reinforced by this unit engaging in bi-weekly internal reviews of progress of each MOD project, meetings with the County's DEEO regarding Davis Bacon and Section 3 requirements as well as its monthly reviews with GLO project monitors.

Currently management believes these actions, along with intensifying its efforts over monitoring the sub-recipients will bring these projects into alignment with contractual benchmark.



Due Date: March 30, 2023

ISSUE #2: HRP Award Amounts Were Calculated Incorrectly [HIGH]

What is the Issue: Tetra Tech, Inc., the County’s CDBG-DR Program Manager, reviewed 372 of 558 HRP damage assessment awards in 2021. Based on Tetra Tech, Inc.’s recommendations, CSD established parameters to only take action on awards that had a variance of greater than \$5,000 or 10%, which was 73 of the 372 awards. Nine of the 73 awards had already been paid to homeowners as an under or overpayment.

Why it Happened: CSD did not perform a sufficient quality assurance and quality control (QA/QC) of the HRP award files. As a result, CSD engaged Tetra Tech, Inc. to perform a subsequent QA/QC that identified large variances in the damage assessment amounts.

Why it Matters: Overpayments to homeowners will result in a financial liability to Harris County. In addition, underpayment of award amounts results in citizen being underserved and program goals not being achieved.

What is Expected: Per the contract between CSD and GLO, HRP funds may be used to reimburse up to \$50,000 in eligible expenses incurred by homeowners for repairs to a primary residence. HRP SOPs require four levels of quality checks to be performed.

What Actions are Suggested: CSD management should request approval of the corrected award amounts by GLO. Of 73 identified awards, CSD management should pay the homeowners the corrected amount or make the proper adjustments to the homeowners already paid.

CSD should provide training to employees on HRP policy changes and implement controls to detect calculation errors prior to issuing payments.

MANAGEMENT’S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD, with Craig Atkins, CFO of CSD, as point of contact

Management has reviewed the various conditions surrounding each individual case that associated with the County Auditor’s findings and has formulated the following actions in order to correct the award amounts and homeowner reimbursements.

Of the 73 case files, only nine (9) were identified as “over” or “under” paid. The remaining 64 cases were to be processed by program staff after the QA/QC process was concluded and were to be disbursed based on the post QA/QC policies established.

For the nine cases identified as “over” or “under” paid, the following additional information and corrective actions are provided:

Under Awarded

Of the nine client files contained within this finding, one (1) client was under awarded and under paid by \$6,355.29. Additionally, staff found that since the award payment affordability period associated with the forgivable promissory note had expired at the time the amounts were discovered as “underpaid.” In order to resolve this condition, program management staff plan must:



- make outreach efforts to the client that was “under awarded”,
- re-review the case with the client to determine continued eligibility, and
- If it is found that the client still meets eligibility tests, staff will ask whether the client is willing to extend the affordability period along with executing a new promissory note representative of the additional award.

Over Awarded

The remaining eight (8) clients were overpaid for a total of \$108,352.68. In order to resolve these over awards and related payments, CSD corrective actions will include:

- Remove/transfer the overpaid costs from the Disaster Recovery Grant to a local funding source in order to avoid inadvertent request for reimbursement from the General Land Office (GLO),
- Recovery efforts: CSD management will work with the County Attorney in considering recovery of the overpaid funds which will include:
 - Consideration given as to whether some correspondence should be sent to each client notifying of the overpayments requesting that each contact that arrangements be made for the recovery of the payments, and/or
 - Formal referral of the eight client files to the County Attorney for their office to make determinations and/or attempts to recapture the funds

CSD’s corrective actions includes staff to be re-trained on calculating and evaluating award amounts. To date, management has already conducted several trainings and continues provide trainings which are provided and conducted by in-house management and GLO Strike team members.

Finally, additional corrective actions will include a follow-up review by HRP staff to ensure that each of the 64 other cases were disbursed utilizing the established policies and in the event addition “over” or “under” payments occurred, the actions outlined above will be followed.

Due Date: March 30, 2023

ISSUE #3: HRP Long-Term Monitoring Process Was Not Performed Timely **[MODERATE]**

What is the Issue: Testing identified the following issues of monitoring timeliness of HRP participants.

- Evidence of long-term monitoring was not maintained for 15 of 25 HRP cases. As such, it could not be determined if monitoring was performed timely.
- The Compliance Monitoring first notice was not sent within 30 days after the one-year anniversary to 19 out of 25 participants.
- The Compliance Monitoring second notice was not sent within 15 days after the first notice for 9 out of 25 participants.
- CSD did not collect the required supporting documents for 10 out of 25 participants and did not refer the cases to the Harris County Attorney’s Office (HCAO) for further action and recapture of funds.

Why it Happened: CSD did not require their employees to maintain documentation of communication between HRP long-term monitoring team and the participants of HRP.



Why it Matters: Without documented evidence of monitoring, CSD may be unable to prove compliance and that puts the County at risk of losing grant funds.

What is Expected: As required by Long-term Compliance HRP SOP:

- A Compliance Monitoring first notice is to be sent within 15 to 30 days after the one-year anniversary of the agreement between CSD and the program participant.
- The Compliance Monitoring second notice is to be sent within 15 days from the date of the first notice if there is no response from the program participant.
- Referral to HCAO for recapture should be initiated within 45 to 60 days after the one-year anniversary of the agreement if there is no response from the program participant.

What Actions are Suggested: CSD should conduct the long-term monitoring activities and follow the pre-defined timeline in the Long-Term Compliance HRP SOPs. The communication with the participants of HRP should be retained as evidence of the monitoring.

MANAGEMENT'S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD, with Elizabeth Winfrey, Assistant Director of CSD, as point of contact

CSD management acknowledges and concurs with the County Auditor's finding. In addition to the auditor's findings, management has noted that the former Long-Term Compliance (LTC) Monitor did not perform his duties as instructed and that the substandard performance included untimely distribution of "affordability compliance letters" and insufficiently documentation of communications with program participants.

CSD's corrective actions will include:

- the hiring of a new LTC Monitor,
- Training for the new staff person is adequately trained, including a complete review of the HRP standard operating procedures for LTC monitoring,
- Management's review of case files in need of compliance work needed,
- Establish benchmarks and a routine for progress reviews of Long-term affordability compliance work completion.

Due Date: July 31, 2023

ISSUE #4: ARP Long-Term Monitoring Precondition Not Approved [MODERATE]

What is the Issue: CSD's precondition for monitoring ARP properties was not based on the Disaster Recovery Affordable Rental Housing Program Guidelines or preapproved by the GLO.

Why it Happened: CSD developed a precondition to begin monitoring ARP properties after attainment of a 95% occupancy rate.

Why it Matters: Adhering to CSD's precondition, property management providers who are participating in the program may house ineligible tenants, which would not fulfill the purpose of the CDBG-DR program or meet the eligibility criteria as defined in the Disaster Recovery Affordable Rental Housing Program Guidelines. CSD did not perform a long-term monitoring review of ARP properties because they had not reached their internal precondition.



What is Expected: Per Disaster Recovery Affordable Rental Housing Program Guidelines, section 12.2 Monitoring, CSD will monitor each project for compliance with the Harris County Affordable Housing Standards, which includes verifying lease-related documentation/actions, annual inspections of property, and eligibility of persons certified/assisted.

What Actions are Suggested: CSD should obtain guidance from GLO regarding the precondition for the long-term monitoring starting at a 95% occupancy rate. In addition, CSD should amend the guidelines for ARP long-term monitoring based on GLO's guidance and educate the long-term monitoring team on the guidelines.

MANAGEMENT'S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD, with Rene Martinez, Chief Housing & Community Development Officer of CSD, as point of contact

Current practices within CSD are designed to ensure that staff responsible for monitoring affordable rental projects (during the lease up phase of the project) receive monthly compliance reports that details tenant income levels, the rent classification, the actual unit occupied by tenant, and relevant demographic information; however, those procedures do not require physical verification of the data within the report. CSD's policies and procedures are more stringent than the GLO's current procedural guidelines which state that an initial review should occur and be completed within 18 months "once the property is in possession of a Certificate of Occupancy for all units or a G704 Statement of Substantial Completion".

Regardless, CSD recognizes the risks associated with these existing procedures and will take additional and cost reasonable actions that avoids delaying physical inspection of tenant data during lease up. Those actions will include updating of existing policy and procedure documents which institutes additional procedures:

- To ensure that landlord tenant files are "sampled" for physical documentation of eligibility/affordability on a quarterly basis once the certificate of occupancy of a project is in place, and
- For those projects that are under of "other" regulatory affordability programs and/or agencies whose published affordability compliance requirements are more stringent than the GLO or CSD's existing policies should be followed.
- The creation of, and requirement to complete a checklist for documenting the additional sampling reviews.

Due Date: April 15, 2023

ISSUE #5: 2 CFR 200.332 Requirements are Not Included in Subawards **[MODERATE]**

What is the Issue: Testing identified all six sampled sub-recipient agreements did not include all provisions required by 2 CFR 200.332 (a).

Why it Happened: There was a lack of management review in drafting the CDBG-DR contracts. In addition, CSD and HCAO do not have a consistent process to identify required provisions to be added to subrecipient contracts.

Why it Matters: A subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship with the subrecipient. Not providing the required information in the



subaward agreement may impair the subrecipient's ability to properly comply with all federal grant requirements.

What is Expected: Per 2 CFR 200.332 (a), pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the required information at the time of the subaward and, if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and sub-award.

What Actions are Suggested: CSD should work with HCAO to ensure future sub-awards contain the required information. CSD should also work with GLO to determine if existing sub-awards should be corrected.

MANAGEMENT'S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD

CSD corrective actions will include the following components:

- Require that management communicate with and/or meet with the County Attorney to ensure that 2 CFR200.332 (a), as applicable to each subaward, is included in all future contracts and/or amended contracts.
- After discussion with the County Attorney, and if it is determined that the subaward agreements are deficient, CSD will request GLO guidance as to whether existing contracts should be amended and work with its subrecipients to execute amendments; as applicable.

Due Date: June 30, 2023

ISSUE #6: Inappropriate User Access to RT [MODERATE]

What is the Issue: Unauthorized users within the Harris County network were granted access to RT through an Active Directory self-registration setting that bypassed CSD's access provisioning and approval controls.

Why it Happened: Access is not periodically reviewed to verify that users are granted access based on job responsibilities and removed appropriately. Additionally, an Active Directory self-registration setting was inadvertently enabled by CSD's network personnel.

Why it Matters: Unauthorized users may access RT's sensitive data.

What is Expected: The Harris County Information Security Access Policy requires the following:

- Section C.1.1, Authorized User Access Rights states that following the principle of least privilege, individuals must only be granted access to the systems, applications, and data required to perform their respective job functions.
- Section C.1.11, Access Certification states that Business Owners must verify the membership, access, and contents of the systems, applications, and/or resources for which they have primary responsibility on a regular basis (at least once per year) to ensure that only authorized members maintain access to and permissions for the systems, applications, and/or resources involved.



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- Section C.1.12, Inactive Accounts states that System Administrators must review and disable all inactive user accounts on the systems and applications that they manage at least every 90 days.
 - Section E.1.7, Privileged Account Maintenance states that Privileged account owners must verify the membership, access, and contents of the resources for which they are responsible frequently (at least quarterly) to ensure that only authorized members maintain access and permissions.

What Actions are Suggested: CSD's Information Technology Department should regularly review user access permissions including privileged access to ensure that only authorized employees have access to RT.

MANAGEMENT'S ACTION PLAN

Responsible Party: Thao Costis, Interim Executive Director of CSD

CSD's information technology subdivision's corrective actions include the following items:

- CSD IT will institute procedures designed to routinely monitor the access rights of each user within the RecoveryTrac system which includes the ongoing maintenance, spot checking and updating of the authorized users listing as well as implement improved procedures via it's help desk ticketing system that requires employees having access are terminated when an employee changes employment status i.e., (transfers, terminations).
- Additionally, IT will meet with the business owners annually conduct a review (March of each year) of the active user accounts list to ensure only the authorized personnel have access to the system, and
- Communicate and work with the County's Universal Services Department to ensure that it has in place the ongoing County-wide access control policy which is designed to ensure that all accounts that are inactive for 90 days will automatically be disabled.

Due Date: April 01, 2023, and ongoing



BACKGROUND

The U.S. Department of Housing and Urban Development (HUD) allocated CDBG-DR grant funds in response to Hurricane Harvey and awarded the funds to GLO. GLO passed these funds through to CSD, which is now responsible for the administration of these funds. CSD hired Tetra Tech, Inc. to aid with overall program management services. CSD uses RT, which is a third-party software provided by Tetra Tech, Inc. for case management of its CDBG DR programs. GLO approved guidelines for the following Harris County CDBG-DR programs:

Program	Budget
Homeowner Assistance Program	\$ 44,524,866.00
Residential Buyout Program	\$ 194,010,829.00
Homeowner Reimbursement Program (HRP)	\$ 54,345,332.00
Affordable Rental Program (ARP)	\$ 248,888,178.00
Single Family New Construction Program	\$ 91,060,401.00
Method of Distribution (MOD)	\$ 127,659,574.00
Competitive Request for Proposal (CRFP)	\$ 81,562,226.00
Commercial Buyout	\$ 13,297,872.00
Public Services	\$ 3,000,000.00
Planning	\$ 37,000,000.00
Administration	\$ 20,961,961.50
Total	\$ 916,311,239.50

The Affordable Rental Program has been designed to provide funds for acquisition, rehabilitation, reconstruction, and new construction of affordable rental housing projects in areas impacted by Hurricane Harvey.

The Homeowner Reimbursement Program provides up to \$50,000 for eligible expenses incurred by homeowners for repairs to a primary residence.

CSD conducts a County level Method of Distribution process, which prioritizes infrastructure for direct repair of damaged facilities and water and flood control facilities because of the limited funds available in this allocation.

The Competitive Request for Proposal program solicits proposals from Harris County and affiliated small cities to repair and rebuild infrastructure/facilities impacted by Hurricane Harvey. The intent of the Competitive Request for Proposal Program is to provide funding for local infrastructure improvements to include:

- Improvements to stormwater/drainage
- Expansion of water and wastewater facilities
- Rehabilitation, reconstruction, or construction of emergency shelters and public facilities
- Traffic signal resilience, and
- Other critical infrastructure/facilities repairs and enhancements



ACCOUNTABILITY

We conducted our audit 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.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.

