



An Audit Report on

**Hurricane Harvey Disaster Recovery
Funds Administered by
the General Land Office**

October 2019
Report No. 20-006



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Overall Conclusion

The General Land Office (Office) implemented some processes and related controls to award, disburse, and monitor Hurricane Harvey disaster recovery funds (see text box for background information on the Office and disaster recovery). However, the Office should strengthen and document those processes and controls to ensure that it awards, disburses, and monitors those funds according to requirements as it continues to administer them. Strengthening and improving those processes will become increasingly important for the Office as it (1) addresses future disasters using the Partial Repair and Essential Power for Sheltering (PREPS) program or similar immediate needs programs and (2) continues processing applications for current Hurricane Harvey disaster recovery programs and begins administering additional programs under the longer term Community Development Block Grant – Disaster Recovery (CDBG-DR) appropriation.

General Land Office Background

The General Land Office (Office) was established in 1836 to manage public lands. Currently, the Office manages state lands and mineral rights, operates the Alamo, provides benefits to Texas veterans, and helps Texans recovering from a natural disaster.

In 2011, the Governor designated the Office as the state's long-term disaster recovery agency, which involves administering all U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) funds.

In 2017, the Governor designated the Office as the state's administrator of Federal Emergency Management Agency housing funds for short-term housing disaster recovery.

Source: The Office.

PREPS Administration. The Office administered the Federal Emergency Management Agency's (FEMA) PREPS program in accordance with federal program requirements. However, it did not always complete repairs within required time frames or ensure that it had complete documentation of repairs. The PREPS program expended \$226.0 million to repair homes damaged by Hurricane Harvey and completed repairs on the last home on June 30, 2018.

CDBG-DR Program. At the time of this audit, the Office was in the early stages of the application and construction processes for the U.S. Department of Housing and Urban Development's (HUD) CDBG-DR program. As of April 30, 2019, the Office had expended \$51.2 million of the \$5.7 billion in CDBG-DR funds that had an approved State Action Plan, which allows the state to administer program funds (see Appendix 3 for more information on the funding process).

CDBG-DR Eligibility. The Office appropriately determined applicant eligibility for the sample of approved applications tested for the Homeowner Assistance Program, the Homeowner Reimbursement Program, and the Affordable Rental Program, all three of which are funded by the CDBG-DR program. However, it should ensure that all documentation has been received and is complete prior to approving an applicant for program funding. In addition, the Office should ensure that it allocates costs between federal and state programs as appropriate.

This audit was conducted in accordance with Texas Government Code, Section 321.0132.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Angelica Ramirez, Assistant State Auditor, at (512) 936-9500.

Contract Processes. The Office planned, procured, and formed selected contracts in accordance with applicable requirements for both the PREPS and CDBG-DR programs; however, it should strengthen its process to ensure that all contracts are reported as required by the General Appropriations Act. In addition, the Office should strengthen controls over its contract monitoring to ensure that monitoring activities are performed and documented.

General Controls. The Office had appropriate user access controls over most of its information systems.

Auditors communicated other, less significant issues separately in writing to the Office’s management.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The Office Administered the Partial Repair and Essential Power for Sheltering (PREPS) Program in Accordance with Federal Requirements; However, Repairs Were Not Always Timely and Documentation Was Not Always Complete	Medium
2-A	The Office Appropriately Determined Eligibility for the Homeowner’s Assistance Program and the Homeowner’s Reimbursement Program; However, It Should Ensure That Applicant Documentation Is Complete for the Homeowner Assistance Program	Medium
2-B	The Office Appropriately Determined the Eligibility of Applicants for the Affordable Rental Program; However, It Should Strengthen Controls Over Its Review Process	Medium
2-C	The Office Expended Community Development Block Grant - Disaster Recovery Funds on Allowable Costs; However, It Should Ensure That It Allocates Those Costs Between Programs	Medium
3	The Office Substantially Complied with Applicable Requirements for the Procurement and Monitoring of Hurricane Harvey Disaster Related Contracts; However, It Should Enhance Compliance with Reporting Requirements and Strengthen Contract Monitoring	Medium
4	The Office Had Appropriate User Access Controls for Most of Its Information Systems	Low

^a A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Background on Hurricane Harvey and Disaster Recovery Programs

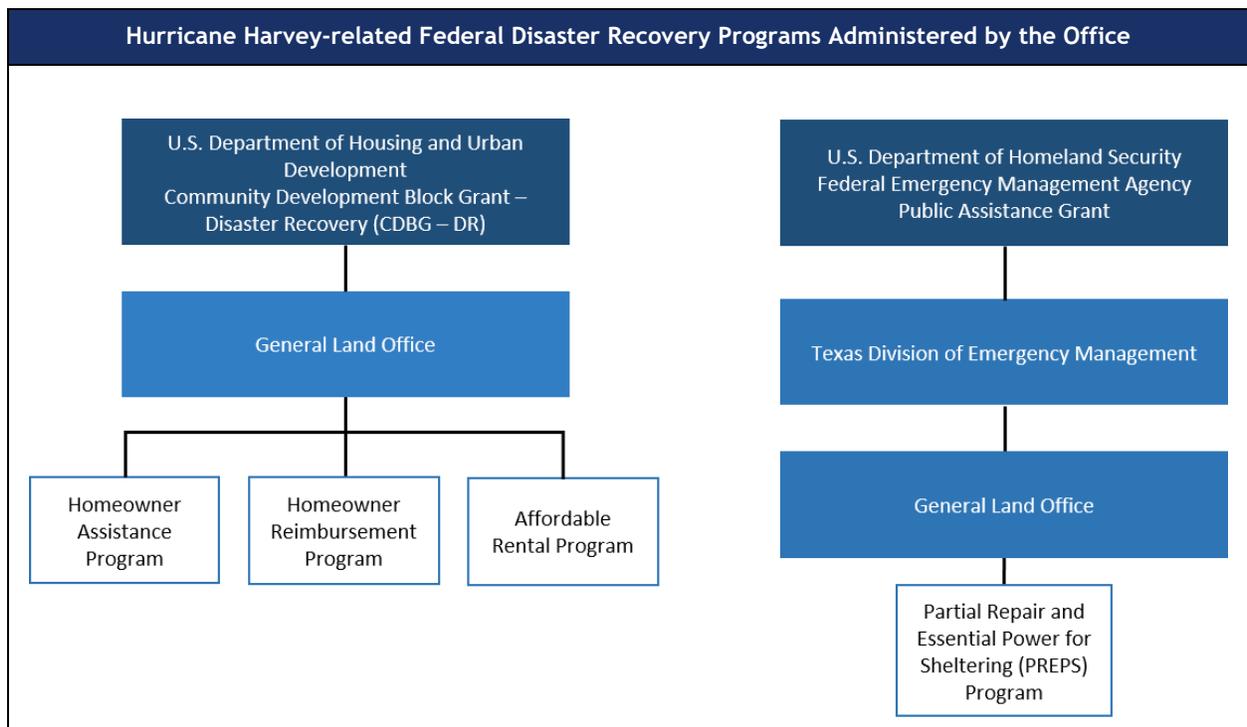
Hurricane Harvey made landfall in Texas as a Category 4 hurricane on August 25, 2017. The storm resulted in record rainfall between 35 and 60 inches. The Office estimated that more than 1 million homes were affected by Hurricane Harvey.

The U.S. Department of Housing and Urban Development (HUD) declared 49 counties eligible for assistance from the CDBG-DR program (see Appendix 3 for additional information on the effects of Hurricane Harvey on Texas). Congress appropriated approximately \$10 billion in CDBG-DR program funds for long-term recovery and mitigation in Texas (see Appendix 3 for additional information on the CDBG-DR funding process).

The Office also received FEMA program funds to administer the Partial Repair and Essential Power for Sheltering (PREPS) program for short-term housing immediately following the storm (see Chapter 1 for additional information on the PREPS program).

Figure 1 shows the audited programs and agencies responsible for administration and oversight.

Figure 1



Source: Based on information provided by the Office.

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Office agreed with the recommendations in the report.

Audit Objective and Scope

The objective of this audit was to determine whether the Office has processes and related controls to help ensure that it awards, disburses, and monitors Hurricane Harvey disaster recovery funds in accordance with applicable requirements.

The scope of this audit covered expenditures and contracts associated with Hurricane Harvey for PREPS through February 28, 2019. The scope also covered contracts associated with Hurricane Harvey for the CDBG-DR program through February 28, 2019, as well as expenditures and applications related to CDBG-DR through April 30, 2019.

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Detailed Results

Chapter 1

The Office Administered the Partial Repair and Essential Power for Sheltering (PREPS) Program in Accordance with Federal Requirements; However, Repairs Were Not Always Timely and Documentation Was Not Always Complete

**Chapter 1
Rating:**
Medium ¹

Partial Repair and Essential Power for Sheltering (PREPS) Program

PREPS was a FEMA pilot program based on a program that had been used only twice before in other states. Public assistance grant money passed through to the Office from the Texas Division of Emergency Management. FEMA funded 90 percent of the program, and the State matched 10 percent of the funding with CDBG-DR funds.

PREPS provided immediate, limited repairs to homes that sustained less than \$17,000 in FEMA-verified losses. FEMA determined program eligibility, and eligibility requirements included:

- Homes within a county affected by Hurricane Harvey.
- Single-family, duplex, townhome, or mobile housing unit with less than 18 inches of flooding.
- Homes that were owner-occupied prior to the storm.

Additionally, the owner must voluntarily opt-in to the program.

Repairs were made to make a home safe, habitable, and secure for less than \$20,000, with an additional \$5,000 to ensure access and functional needs.

Source: The Office.

The Office administered the Partial Repair and Essential Power for Sheltering (PREPS) Program in accordance with federal program requirements (see text box for program information). Program expenditures totaled \$226.0 million. Auditors tested a sample of 60 of the 15,666 homes repaired between

December 2017 and June 2018 and determined that the Office ensured that repaired homes were safe, clean, and secure to enable homeowners to return to their homes immediately following Hurricane Harvey. However, the Office did not always complete those repairs timely, maintain complete documentation, or physically secure third-party data.

Timeliness of Repairs. The Office completed repairs on 54 (90 percent) of 60 homes tested within the required 60-day time frame. However, repairs for the other 6 homes were completed between 64 and 140 days after the issuance of the notice to proceed. The Office asserted that those delays often occurred due to issues outside of its control, such as with homeowners, local officials, or logistics.

Not ensuring that repairs are performed within required time frames increases the risk that homeowners may be required to live in alternate housing for extended periods of time or that additional deterioration of the home could occur.

Site Inspection Documentation. The Office ensured that construction progressed as necessary, and it performed site inspections to ensure that required repairs were completed. However, it did not always ensure that documentation of those site inspection visits contained the required photograph documentation of repaired items. For 11 (18 percent) of 60 homes tested, the official form for the final site visit did not include at least one photograph of a completed repair as required. For 9

¹ The risk related to the issues discussed in Chapter 1 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

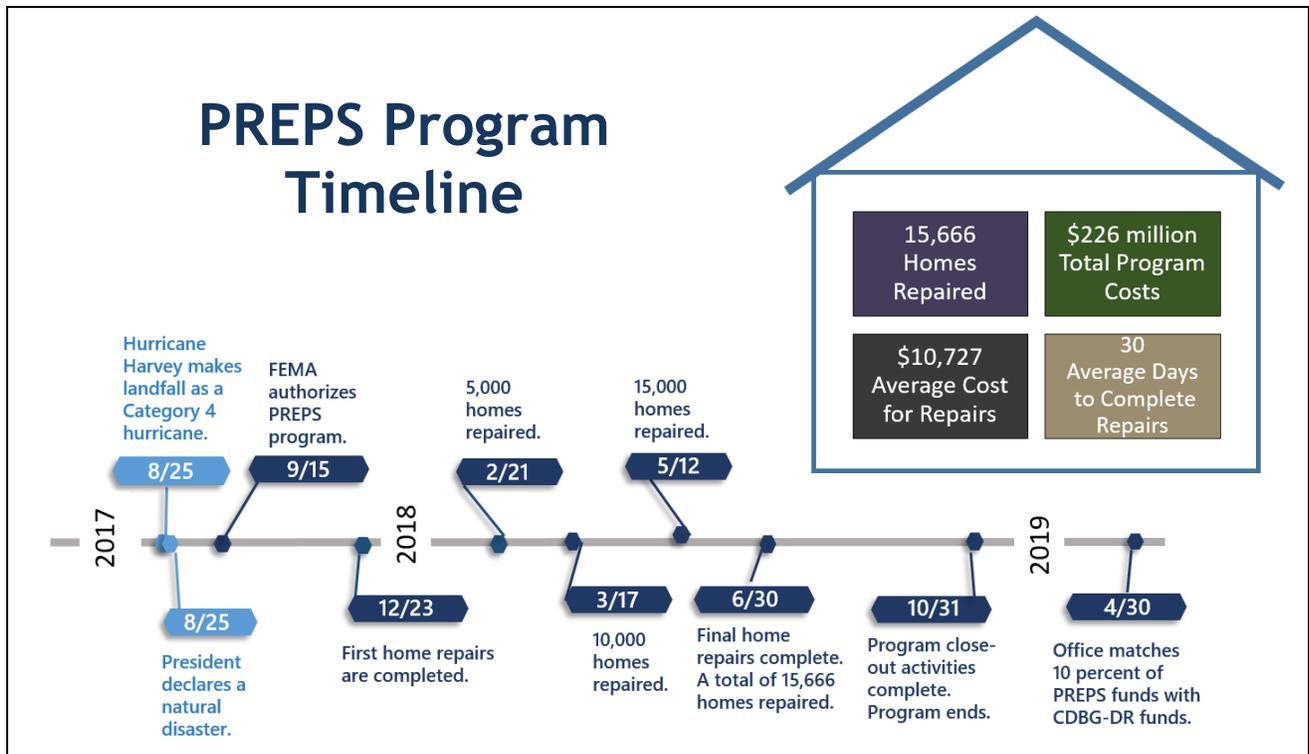
(82 percent) of those 11 homes, the Office was able to provide documentation from the vendor who performed the final site visit that contained the missing photographs of the completed repair. However, for the remaining two homes, the Office was unable to provide any additional documentation to verify that those repairs were performed.

Not ensuring that site inspections are properly documented increases the risk that a repair may not be completed as required and that the builder may charge for a repair that was not performed.

Third-party Data. The Office did not ensure that third-party data related to the PREPS program had adequate physical security controls. To minimize security risks, auditors communicated details about the identified weakness directly to the Office’s management in writing.

Figure 2 provides information on the PREPS program administered by the Office after Hurricane Harvey.

Figure 2



Source: Based on information provided by the Office.

Recommendations

The Office should:

- For any future PREPS programs that it administers, ensure that it completes repairs timely and adequately documents site visits.
- Develop and implement a process to physically secure third-party vendor data.

Management's Response

1. *For any future PREPS programs that it administers, ensure that it completes repairs timely and adequately documents site visits.*

✦ Management Response:

- *The current understanding of the Office is that the Federal Emergency Management Agency (FEMA) will not administer PREPS or a similar program in the future, however if this is an option, the Office will work diligently with homeowners, contractors, and partnering agencies to ensure timely repairs and adequate site visit documentation.*
- Implementation Date: *N/A – Program will no longer be administered by the GLO.*
- Contact: *N/A*

2. *Develop and Implement a process to physically secure third-party vendor data.*

✦ Management Response:

- *The Office is currently updating policies and procedures regarding security of sensitive personal information. The Office is currently developing a system of record to store the FEMA program data. In lieu of the system being fully developed and implemented, all official files are currently being properly stored, logged, tracked, and protected by the Office.*
- Implementation Date: *October 2019*
- Contact: *GLO-CDR Business Management Section*

The Office Appropriately Determined Applicant Eligibility for Programs Funded by the Community Development Block Grant - Disaster Recovery (CDBG-DR) Appropriation; However, It Should Strengthen Controls Over Those Programs

The General Land Office (Office) appropriately determined applicant eligibility for the sample of approved applications tested for the Homeowner Reimbursement Program, the Homeowner Assistance Program, and the Affordable Rental Program, which are funded by the CDBG-DR appropriation. The Office was in the early stages of developing and implementing those programs, and as it began processing applications for those programs, it was also developing standard operating procedures for each program and implementing a new grant management system.

As of April 30, 2019, the Office had expended \$51.2 million of the \$5.7 billion CDBG-DR appropriation.

However, the Office should ensure that all documentation was received and complete prior to approving an applicant for program funding. In addition, the Office should ensure that it allocates costs between federal and state programs as appropriate. Those steps will become increasingly important as the Office continues processing applications for current programs and begins administering additional programs under CDBG-DR.

**Chapter 2-A
Rating:
Medium ²**

Chapter 2-A

The Office Appropriately Determined Eligibility for the Homeowner Reimbursement Program and the Homeowner Assistance Program; However, It Should Ensure That Applicant Documentation Is Complete for the Homeowner Assistance Program

Program Information

Homeowner Reimbursement Program

- Allows homeowners to be reimbursed up to \$50,000 for certain out-of-pocket expenses incurred for home repairs including reconstruction, rehabilitation, or mitigation.
- Began accepting applications in February 2019.
- \$100.0 million allocated for eligible homes outside of the City of Houston and Harris County. As of April 30, 2019, the Office had not processed a homeowner reimbursement.

Homeowner Assistance Program

- Provides funding for rehabilitation or reconstruction of owner-occupied single-family homes damaged by Hurricane Harvey.
- Began accepting applications in November 2018.
- Approximately \$1.3 billion allocated for eligible homes outside of the City of Houston and Harris County. As of April 30, 2019, the Office had expended \$316,000 of that \$1.3 billion on construction.

Source: The Office.

The Office appropriately determined eligibility for the Homeowner Reimbursement Program and the Homeowner Assistance Program (see text box for program information). However, it did not always ensure that all documentation was received and complete prior to approving the applicant for the Homeowner Assistance Program.

Homeowner Reimbursement Program

The Office ensured that the two applicants approved as of April 19, 2019, for the Homeowner Reimbursement Program had the appropriate documentation and need for funding as required (see text box for required documentation for homeowner programs). The homeowner was required to submit receipts for repairs already performed and any documentation for other assistance received, such as assistance from the Federal Emergency Management Agency (FEMA) or insurance payouts. The Office accurately calculated the amount of remaining need based on the cost of repairs and any other assistance received.

Homeowner Assistance Program

Eligibility Documentation. The Office ensured that 31 (91 percent) of 34 approved Homeowner Assistance Program applicants tested had submitted all required documentation prior to being approved as eligible. Auditors selected those approved applicants from a population of 169 approved applicants. For the remaining three applicants, however, the Office had not obtained or documented one or more required documents in its grant management system at the time of approval. Those required documents include signed affidavits, a right of entry release to allow the Office or

Required Documentation for Homeowner Programs Funded by CDBG-DR

- Completed application.
- Proof of identity.
- Income documentation.
- Proof of home ownership at the time of the storm within an eligible county.
- Proof of storm damage.
- Estimated cost of repairs.
- Proof that homeowner is current with property taxes and child support, as applicable.
- Documentation of any other assistance received.
- Environmental clearance.
- Site inspection.
- Right of entry release.
- Signed affidavits attesting to the truth, completeness, and accuracy of information submitted.
- Receipts for repairs (Homeowner Reimbursement Program only).

Source: The Office.

² The risk related to the issues discussed in Chapter 2-A is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

designated personnel to enter the home, a repair estimate for Hurricane Harvey damage, documentation of any other assistance received, and tax returns.

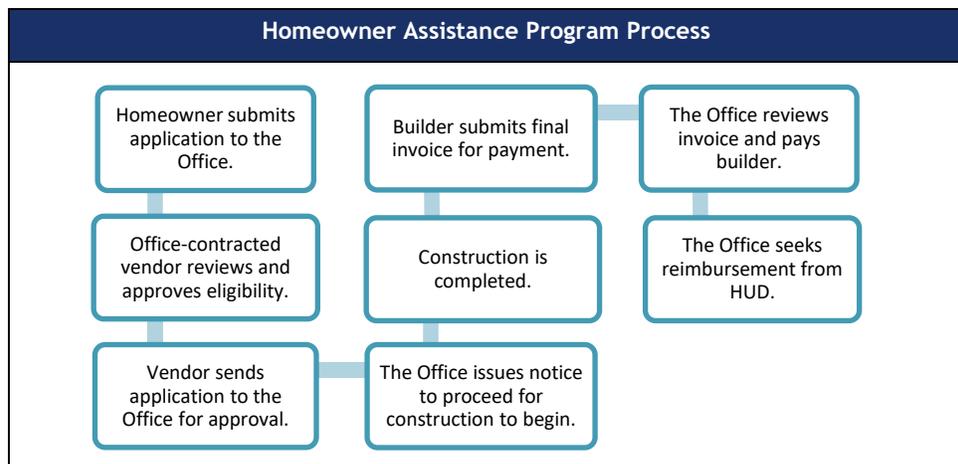
The Office appropriately reviewed and approved 32 (94 percent) of 34 applicants tested. However, the Office’s review did not identify that one applicant had not submitted complete information and that the vendor had recorded inaccurate information for the other applicant in the grant management system. The Office contracted with third-party vendors to obtain application information and determine the homeowner’s eligibility for the program. Figure 3 below describes the application and eligibility process for the Homeowner Assistance Program.

Preconstruction. After an application has been approved by the Office, the construction process begins with a preconstruction conference, the purpose of which is to ensure that the homeowner and the builder know the work to be performed and sign all required documents. For 19 (95 percent) of 20 applicants tested that had entered the construction phase, the Office ensured that the preconstruction conference was held, final documentation was signed, and the notice to proceed matched the work determined to be necessary based on the application. However, for one applicant, the Office did not ensure that the preconstruction conference was adequately documented and that the scope of the approved work or changes to that scope were documented.

Not ensuring that all required documents are obtained prior to approval increases the risk that an incorrect eligibility determination could be made or that CDBG-DR program requirements will not be met.

Figure 3 describes the process for the Homeowner Assistance Program.

Figure 3



Source: Based on information provided by the Office.

Recommendation

The Office should strengthen its review process to ensure that necessary and required documents for eligibility determinations are obtained and recorded before an applicant is approved.

Management's Response

1. *The Office should strengthen its review process to ensure that necessary and required documents for eligibility determinations are obtained and recorded before an applicant is approved.*

✦ Management Response:

- *The GLO agrees that its review processes should be strengthened to ensure that necessary and required documents for eligibility determinations are obtained and recorded before an applicant is approved. On May 13, 2019, GLO contracted with the South East Texas Regional Planning Commission to provide six positions dedicated to performing quality assurance/quality control ("QA/QC") reviews of potentially eligible applicant files. In June 2019, GLO began to assign temporary staff to perform QA/AC reviews, and there are currently 4 temps working on the Housing Assistance Program (HAP). On June 17, 2019, GLO provided in-person training to Vendors that included a topic on documenting applicant eligibility based on frequently missed items in projects reviewed by the GLO.*

On July 7, 2019, GLO assigned a single HAP staff member to be responsible for weekly meetings with Vendors that facilitated more consistent, accurate applicant submissions by Vendors in project set-up packets. On September 1, 2019, GLO assigned a contractor as GLO's Project Management Vendor, to perform quality assurance checks on projects that are in Project Review Status, which is the status prior to submission to the GLO for approval. Prior to this point they were exclusively performing QA/QC of files that were already approved by GLO. The results of these efforts have improved the accuracy and submission of required documents by HAP Vendor staff and approved by GLO staff and has allowed GLO staff to dedicate additional time to ensuring file eligibility prior to approval.

- Implementation Date: September 2019

- *Contact: State Run Housing Program Director, GLO-Community Development & Revitalization*

**Chapter 2-B
Rating:
Medium³**

Chapter 2-B

The Office Appropriately Determined Applicants’ Eligibility for the Affordable Rental Program; However, It Should Strengthen Controls Over Its Review Process

The Office appropriately prioritized applications received, ensured that applications were complete and received timely, and ensured that the applicant and property were eligible for the Affordable Rental Program (see text box for program information). However, the Office did not always ensure that documentation of its due diligence review processes was sufficient to support the completion of all aspects of that review.

Figure 4 summarizes the Office’s application process for the Affordable Rental Program through the execution of a contract for approved projects.

Affordable Rental Program

- Provides funding for rehabilitation, reconstruction, or construction of new multifamily rental housing units in areas affected by Hurricane Harvey. Multifamily housing units are defined as eight or more rental units under common ownership.
- Eligible projects may receive a minimum of \$250,000 and maximum of \$25 million in Affordable Rental Program funds.
- A total of \$450 million has been allocated for affected areas outside of the City of Houston and Harris County.
- As of February 28, 2019, the Office had executed 23 contracts totaling approximately \$74 million to recipients. As of April 30, 2019, the Office had not processed a contract payment for the program.

Source: The Office.

Figure 4



Source: Based on information provided by the Office.

³ The risk related to the issues discussed in Chapter 2-B is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Prioritization of Applications

The Office obtained applications for the program through a July 2018 Request for Applications. It grouped applications received by their location in the various Councils of Government ⁴ (COG) affected by Hurricane Harvey and then prioritized those applications separately for each COG.

The Office correctly prioritized the applications received for both COGs tested in accordance with its Request for Applications by the (1) date received and (2) project type.

Review of Applications

Auditors tested 15 of the 67 individual applications that the Office had conditionally approved. The Office's processes to review individual applications were sufficient to ensure that all 15 (100 percent) applications tested were (1) received within the deadlines assigned in the Office's Request for Applications, (2) complete, and (3) for applicants and property types eligible under program requirements. The applications tested were for reconstruction, rehabilitation, and new construction projects.

Additionally, the Office's processes ensured that the application documents were accompanied by required affidavits and assurances⁵ for 14 (93 percent) of the 15 applications tested. While the remaining applicant submitted the required affidavits and assurances, some of those documents were not signed by an authorized official as required. Not ensuring that affidavits and assurances are signed by authorized officials may increase the risk that decisions could be made based on information that is inaccurate or incomplete.

⁴ Councils of governments (COGs) are voluntary organizations of local governmental entities that coordinate programs and services to address needs that cross jurisdictional boundaries. Texas has 24 COG regions, of which 10 were affected by Hurricane Harvey.

⁵ The affidavits and assurances included a general assurances form outlining various federal and state requirements and three standard federal affirmation documents. The affidavits and assurances required affirmation of applicants' understanding of and compliance with various requirements.

Due Diligence Review

Of the 15 applications tested, the Office had performed its due diligence review for 13 applications; the remaining 2 applications had not reached the due diligence review phase at the time of testing (see text box for information on due diligence review). While that review process was sufficient to meet the U.S. Department of Housing and Urban Development's CDBG national objectives, it was not always documented to support applicants' compliance with other applicable requirements.

Due Diligence Review Process

The Office's due diligence review process could include, but was not restricted to, the following steps:

- A duplication of benefits review to ensure that assistance provided from multiple sources does not exceed needs.
- An environmental review.
- A site inspection.
- An underwriting or financial feasibility review.
- A review of the project's compliance with U.S. Department of Housing and Urban Development (HUD) Affirmatively Furthering Fair Housing rules.
- A review to ensure that the proposed project is designed to meet the national objectives established as part of HUD's CDBG requirements.
- A check to ensure that the applicant (1) was not suspended or debarred, (2) was in good standing on loans and commitments, and (3) did not have any prior violations or convictions.

Source: The Office.

Specifically, while the Office maintained sufficient documentation of certain portions of its due diligence review, it did not ensure that its documentation supported the results of other portions. For example, the Office did not document the results of its review of an applicant's outstanding loans, commitments, and contractual obligations, in addition to prior enforcement or disciplinary action taken against an applicant.

Additionally, the Office's processes were not designed to ensure that its final conclusion on the results of its due diligence review were documented.

Not adequately documenting all portions of its due diligence review, as well as the final results of that review, increases the risk that the Office may not identify or appropriately address potential issues with an application.

Program Contracts

The Office's processes were sufficient to ensure that all 9 (100 percent) contracts tested included clauses that addressed program requirements. However, those processes did not always ensure that contract amounts were supported by, and did not exceed, funding amounts in the associated underwriting review. Specifically, the Office issued two contracts with amounts that exceeded the funding amounts supported by the associated underwriting review. Not ensuring that the contract amount is supported by the underwriting review increases the risk that the project could exceed program thresholds or not be cost-effective.

In addition, the Office did not obtain the certificate of interested parties for 6 (67 percent) of 9 contracts tested. Not obtaining certificates of interested parties from program applicants increases the risk for potential conflicts of interest.

Recommendations

The Office should:

- Ensure that all applications and associated affidavits and assurances are completed as required prior to issuing a conditional application acceptance.
- Develop and implement a process to document its due diligence review to ensure that all steps performed and key determinations made are clearly documented.
- Strengthen its contract formation processes to ensure that the contract amount is supported by the underwriting review.
- Ensure that it obtains certificates of interested parties from applicants.

Management's Response

1. *Ensure that all applications and associated affidavits and assurances are completed as required prior to issuing a conditional application acceptance.*

✦ Management Response:

- *The GLO agrees that it should ensure that all applications and associated affidavits and assurances are complete prior to issuing a conditional application acceptance. Affordable Rental Program (ARP) staff initiated a policy on September 1, 2019 to review all applications for completeness prior to the issuance of any conditional commitment letter, prior to awarding additional funding as authorized under the U.S. Housing and Urban Development (HUD) approved Action Plan. The ARP staff has been increased by two employees as well as two Vendor staff members to help ensure that all applications are reviewed for completeness prior to any commitment being issued.*
 - Implementation Date: *September 1, 2019*
 - Contact: *Manager, Affordable Rental Program, GLO-Community Development & Revitalization*
2. *Develop and implement a process to document its due diligence review to ensure that all steps performed, and key determinations made are clearly documented.*

✦ Management Response:

- *The GLO agrees that it should develop and implement a process to document its due diligence review to ensure that all steps performed, and key determinations made are clearly documented. The ARP finalized Standard Operating Procedures effective June 5, 2019 that will document the process for the due diligence review of all applications and how decisions will be documented, and this process will be followed for future funding allocations and awards.*
- Implementation Date: June 5, 2019
- Contact: Manager, Affordable Rental Program, GLO-Community Development & Revitalization

3. *Strengthen its contract formation processes to ensure that the contract amount is supported by the underwriting review.*

✦ Management Response:

- *The GLO agrees that it should strengthen its contract formation processes to ensure that the contract amount is supported by the underwriting review. ARP staff worked with the legal department and the contracts team to ensure that all information that is needed for the contract is provided by the program staff and it matches the review provided by the underwriting team. This new policy became effective on September 3, 2019.*
- Implementation Date: September 3, 2019
- Contact: Manager, Affordable Rental Program, GLO-Community Development & Revitalization

4. *Ensure that it obtains certificates of interested parties from applicants.*

✦ Management Response:

- *The GLO agrees that it should ensure that it obtains certificates of interested parties from applicants. This certificate is generated by the contracts team and the ARP team now includes a review as part of its due diligence process that ensures certificates of interested parties are received prior to the issuance of a contract. This policy became effective June 21, 2019.*
- Implementation Date: June 21, 2019

- *Contact: Manager, Affordable Rental Program, GLO-Community Development & Revitalization*

**Chapter 2-C
Rating:
Medium ⁶**

Chapter 2-C

The Office Expended Community Development Block Grant - Disaster Recovery Funds on Allowable Costs; However, It Should Ensure That It Allocates Those Costs Between Programs

The Office expended CDBG-DR administrative⁷ funds on allowable items for all 24 (100 percent) costs tested. However, while the Office had a process to determine whether costs were allowable, that process did not ensure that costs were consistently allocated between federal or state programs when those costs benefited more than one program (see text box for cost allocation information). Auditors tested a sample totaling \$1.5 million out of \$11.8 million⁸ in administrative costs.

Specifically, for 10 (42 percent) of the 24 costs tested, the Office purchased goods or services totaling approximately \$542,000 that potentially benefited more than one federal or state program, such as rent on office space; electronic devices (cell phones, computers, and monitors) for program use; training; and shirts identifying staff as Office personnel. The Office was reimbursed for those costs solely through the Hurricane Harvey CDBG-DR funds. The Office did appropriately allocate the costs for eight expenditures tested between the CDBG-DR project and other federal programs.

Ensuring that costs are appropriately allocated is important because the Office administers multiple federal and state projects for several different natural disasters. Not allocating costs across programs does not meet federal requirements and increases the risk that funds may not be used as intended.

Allocation of Costs

According to the Code of Federal Regulations, a cost should be allocated to a particular federal award if the goods or services involved are chargeable to that award in accordance with relative benefits received.

If a cost for a good or service benefits two or more projects in proportions that can be determined easily and affordably, the cost must be allocated accordingly. However, if the proportions cannot be determined because of the interrelationship of the work involved, the costs may be allocated or transferred based on any reasonable documented basis.

Source: Title 2, Code of Federal Regulations, Section 200, Subpart E, Part 405.

⁶ The risk related to the issues discussed in Chapter 2-C is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

⁷ The Office’s Hurricane Harvey State Action Plans allocate 5 percent of the total CDBG-DR funds for administrative costs for oversight, management, and reporting. Those activities include contract administration, compliance monitoring, and the provision of technical assistance.

⁸ This amount does not include payments to vendors for program management contracts. See Chapter 3 for information on Hurricane Harvey-related contracting.

Recommendation

The Office should develop and implement a process to allocate costs between projects as appropriate when those costs benefit multiple projects.

Management's Response

1. *The Office should develop and implement a process to allocate costs between projects as appropriate when those costs benefit multiple projects.*

✦ Management Responses:

- *The GLO concurs with the recommendation. The GLO Financial Management – Federal Finance Division is currently working in consultation with a financial services vendor contracted by the GLO Community Development and Revitalization Division, to develop and implement a cost allocation methodology that is appropriate when costs benefit multiple projects. We are considering different methodologies, which include staff time distribution and space allocations, in the planning phase of this project. Upon selection and development of a cost allocation methodology, we will make the appropriate adjustments to the accounting system and develop standard operating procedures that memorialize this process. Going forward, we will review the process on a semi-annual basis and make any needed adjustments to the allocation assumptions, if determined necessary.*
- Implementation Date: January 15, 2020
- Contact: Senior Director, Financial Management, Federal Finance Division

The Office Substantially Complied with Applicable Requirements for the Procurement and Monitoring of Hurricane Harvey Disaster-related Contracts; However, It Should Enhance Compliance With Reporting Requirements and Strengthen Contract Monitoring

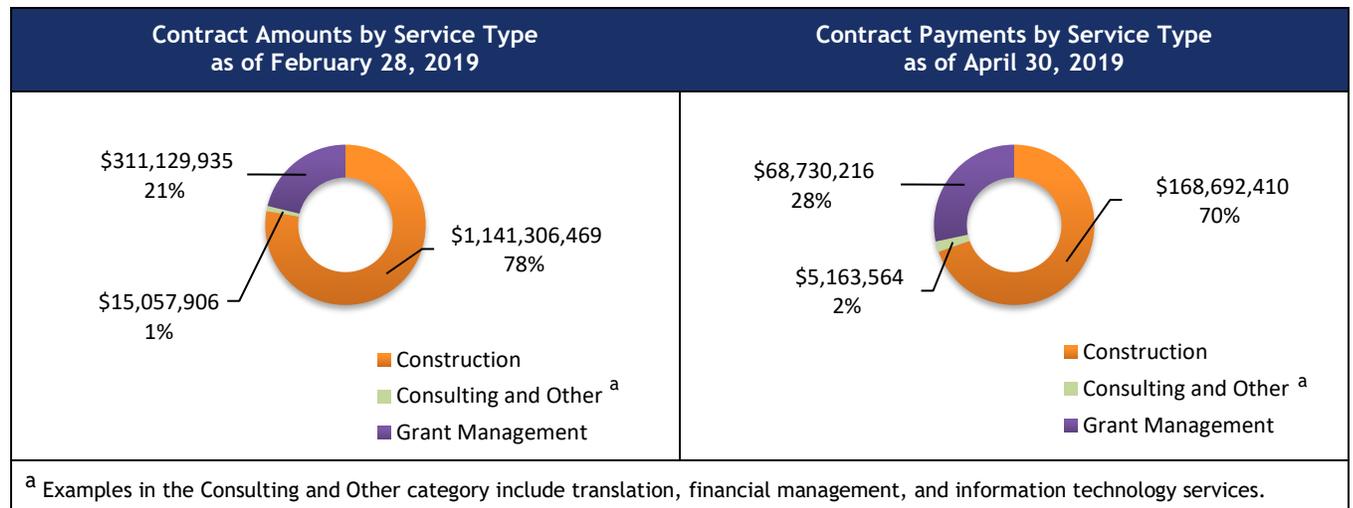
**Chapter 3
Rating:
Medium⁹**

The Office followed applicable requirements¹⁰ in its planning, procurement, and formation of Hurricane Harvey-related contracts for the PREPS and CDBG-DR programs. However, it did not always report contracts to the Legislative Budget Board (LBB) in accordance with General Appropriations Act (85th Legislature) requirements.

Additionally, while the Office had monitoring processes in place, it should strengthen those processes to ensure that monitoring is sufficient and adequately documented. Specifically, the Office should implement an oversight process to ensure that all monitoring activities it determines to be necessary are performed and documented.

Figure 5 shows the total contracted amounts and total contract payments by type of service for the programs as of February 28, 2019, and April 30, 2019, respectively.

Figure 5



Source: Based on information provided by the Office.

⁹ The risk related to the issues discussed in Chapter 3 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

¹⁰ The Office received from the Governor a waiver from state procurement and contracting requirements for any disaster recovery-related activities while the Governor's disaster declaration for Hurricane Harvey is in effect. That declaration has been extended on an ongoing basis since the date of the disaster. While the Office chose to follow most state procurement and contracting processes for its Hurricane Harvey-related activities, it waived certain internal Office processes and reduced selected timelines on some of its procurement activities.

Contract Planning, Procurement, and Formation

As of February 28, 2019, the Office had planned, procured, and executed 158 contracts for the PREPS and CDBG-DR programs totaling approximately \$1.5 billion¹¹ for goods and services, such as construction and information technology services (see text box for more information on state contracting).

Auditors selected 7 of the 26 solicitations that the Office used to procure and execute those 158 contracts. The Office followed applicable state and federal requirements in its planning and procurement of the seven solicitations tested. Specifically, the Office:

- Appropriately planned and developed a scope of work for all seven solicitations tested.
- Developed solicitation documents and evaluated responses for the three contracts that required formal solicitations in accordance with applicable requirements.
- In addition, auditors tested one executed contract for each of those seven solicitations. Those seven contracts included all essential clauses and provisions necessary to comply with applicable state and federal requirements.

Further, the Office reported 16 (80 percent) of 20 contracts tested for (1) planning, procurement, and formation and (2) monitoring to the LBB as required. However, the remaining four contracts exceeded the \$50,000 threshold and should have been reported according to requirements. All contracts, including amendments, modifications, renewals, or extensions that increase a contract's value to greater than \$50,000, must be reported to the LBB, according to the General Appropriations Act (85th Legislature), Article IX, Section 7.04.

Not reporting all contracts to the LBB increases the risk that contracts the Office enters into will not be subject to appropriate state oversight and public disclosure.

Contract Planning, Procurement, and Formation

Planning - Identify contracting objectives and contracting strategy.

Procurement - Fairly and objectively select the most qualified contractors.

Formation - Ensure that the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions, as well as establish processes that are cost-effective and aligned with the cost of providing the goods and services.

Source: *Contract Management Guide*, Version 1.16.

¹¹ This amount does not include the contracts that the Office issued to the Affordable Rental Program funding recipients.

Contract Monitoring

The Office had multiple contract monitoring processes in place, and several Office departments perform monitoring of Hurricane Harvey-related

Contract Monitoring at the Office

Contract Management Division - Performs the technical monitoring of contracts, which includes ensuring that contract documentation is appropriate, the contract does not exceed the agreed upon amount, and bonds and insurance meet requirements. It also entails reviewing invoicing to ensure that it is within a contract's overall budget.

Program area - Responsible for overseeing the continuous monitoring of vendors for each program the Office administers. That monitoring includes ensuring that goods or services are received and that invoices reconcile with contract pricing.

Monitoring and Quality Assurance Division - Performs continuous reviews of all departments and vendors within the Office's Community Development and Revitalization Division. This typically includes monitoring subrecipients of federal program funding; however, the Division is adjusting its procedures to monitor vendors for the CDBG-DR program.

Source: The Office.

contracts (see text box for information on contract monitoring at the Office). However, the Office should establish an oversight process to identify and document the decentralized monitoring activities being performed to help ensure that those activities are performed as expected.

Contract Management Division. The Contract Management Division assigned contract managers as required to all 14 (100 percent) contracts tested for contract monitoring requirements. It also performed and documented monitoring activities for 12 (92 percent) of 13 contracts tested that it had selected for monitoring. However, the Contract Management Division did not perform a desk review, which is required by its risk assessment, for the remaining contract valued at \$3.2 million.

In addition, the Contract Management Division did not perform all required closeout procedures for 6 of 7 contracts tested that had undergone closeout procedures. Specifically, it did not report vendor performance to the Office of the Comptroller of Public Accounts' Vendor Performance Tracking System (VPTS) for those 6 contracts. Because those contracts were valued at more than \$25,000, they should have been reported to VPTS, according to Title 34, Texas Administrative Code, Chapter 20. The remaining

contract was for less than \$25,000 and was not required to be reported to VPTS.

The Contract Management Division also did not document a risk assessment or contract score to determine the level of monitoring for 1 (7 percent) of the 14 contracts tested. That contract was valued at \$200,000. Without determining the level of contract monitoring necessary, the Office cannot ensure that appropriate monitoring occurs.

Program Area. The applicable program area performed and documented monitoring activities for 12 (92 percent) of 13 contracts tested. However, the program area did not monitor the remaining contract. In addition, the program area did not issue a notice to proceed for that contract before work began, as required by the contract. Not issuing a notice to proceed increases the risk that services requested or provided could be outside of the contract scope and that procurement requirements could be circumvented.

For the 14 contracts tested, auditors tested 15 of 194 vendor invoice payments for those contracts. The program area adequately reviewed and

approved 14 (93 percent) of 15 vendor invoice payments tested. However, for the remaining invoice payment, the program area did not ensure that the invoice tested complied with all contract pricing requirements. Ensuring that invoices comply with all contract pricing requirements decreases the risk of overpayment for goods or services.

Not having a comprehensive, documented monitoring plan in place for the Hurricane Harvey-related contracts, particularly when multiple departments are responsible for various types of monitoring, increases the risk that monitoring may be inconsistent and that contract requirements may not be met.

Recommendations

The Office should:

- Ensure that it reports all contracts to the LBB in accordance with statutory requirements.
- Develop and implement a monitoring oversight process to ensure that (1) monitoring activities for contracts are determined based on an assessment of risk and (2) identified monitoring is appropriately performed and documented.
- Ensure that notices to proceed are issued prior to work beginning, if required by the contract.
- Report vendor performance to the Office of the Comptroller of Public Accounts' VPTS.
- Ensure that it reviews and approves payment for invoices based on the pricing established in the contract.

Management's Response

1. *Ensure that it reports all contracts to the LBB in accordance with statutory requirements.*

✦ Management Responses:

- *The GLO is committed to reporting all contracts to the LBB in accordance with statutory requirements.*

In 2019, the agency made changes in how contracts are reported to the LBB. First, the agency moved the responsibility from

Procurement to the Contract Management Division (CMD). Second, the agency hired a Compliance Analyst for the purpose of complying with the reporting requirements. Third, the agency used CMD's contract management system, Contract Lifecycle Management (CLM), to capture the required information, inform the Compliance Analyst of the reporting need, provide a means of tracking the reporting process, and allow for oversight.

With regards to the third change, CLM is a web-based system the agency uses to track contract records. CLM allows the agency to move work from one individual to another using a series of steps known as a Contract Flow. During the formation phase, a record is created in CLM. Within the record, Contract Managers are required to complete LBB-reporting fields including the specific categories that must be reported. Each record receives at least two Quality Assurance reviews. Once a contract has been completed, a flow step directs the Compliance Analyst to report the contract in the LBB's database. In the final step of the Contract Flow, the assigned Contract Manager reviews vital components of the contract record, including the posting to the LBB database.

It is the GLO's opinion that the steps taken are adequate to mitigate future instances of noncompliance.

- Implementation Date: September 2019
 - Contact: Director, Contract Management Division
2. *Develop and implement a monitoring oversight process to ensure that (1) monitoring activities for contracts are determined based on an assessment of risk and (2) identified monitoring is appropriately performed and documented.*

✦ Management Responses:

- *(1) The GLO is committed to assessing the risk of a contract, appropriately monitoring contracts identified for monitoring, and documenting the monitoring process.*

The Contract Management Division (CMD) implemented a new contract management system, Contract Lifecycle Management (CLM) on September 1, 2017. As the team continues to learn the enhanced features of this system, the monitoring process has continued to evolve. CMD uses the scorecard function within CLM as a risk-assessment tool for contracts. The automation in the

system provides the Contract Managers with a series of questions, and, based on the answers, CLM assigns a score. The risk assessment tool is reviewed each fiscal year to ensure the answers accurately reflect the level of risk to the agency. The final risk assessment score generated in CLM is one of four elements in the creation of the annual monitoring plan. The other three criteria are as follows: the contract being designated for enhanced monitoring, the contract's dollar value, and the date when the contract was last monitored.

After a contract has been executed, a contract flow step directs a Contract Technician to create a scorecard and assign it to the Contract Manager assigned to the contract. When this step is done, the scorecard is emailed directly to the Contract Manager for completion. When completed, the scorecard is maintained in the CLM system, and a score is provided in the top right-hand corner of the CLM record. These steps are to be completed on any contract with a value greater than \$25,000 and an execution date after the creation of CMD in spring of 2016. CMD has created additional flow steps to serve as a final quality assurance review by the Contract Manager. This review will ensure that the scorecard was completed. In addition, the Director of Contract Management runs a query in CLM around the 1st and the 15th of each month to ensure all scorecards have been completed. This report is sent to a Contract Technician for follow-up with the assigned Contract Manager.

- (2) With regards to the performing and documenting of the monitoring, in the summer of 2019, CMD made additional changes to the CLM system by creating an "Additional Form" specific to monitoring. This Additional Form is a series of fields that are designed to capture the entire monitoring process, including issues to be resolved and the status of those issues. With this tool in place, CMD management can run a status report at the push of a button to determine the status of any required reporting and the issues that need to be or have already been addressed.

CMD has also taken the additional step of adding all monitoring documentation to the DocuShare contract file, as it is the official file of record. It is the GLO's opinion that the steps taken are adequate to mitigate future instances of this nature.

- Implementation Date: September 2019
- Contact: Director, Contract Management Division

3. *Ensure that notices to proceed are issued prior to work beginning, if required by the contract.*

✦ Management Response:

- *The GLO is committed to ensuring Notices to Proceed are issued prior to work beginning.*

The Contract Management Division (CMD) implemented a new contract management system, Contract Lifecycle Management (CLM) on September 1, 2017. CLM allows for the addition of fields to track vital information. Currently, CLM includes a field titled "Notice To Proceed Required." This field provides for the option of Yes or No. CMD will add a date field, so if Yes is selected the date of the NTP can be captured. CMD will run a report at the beginning of each month to identify empty date fields associated with contracts that require an NTP. CMD will initiate correspondence with the assigned Project Manager regarding the status of the NTP. Ultimately, the NTP will need to be issued by the associated Project Manager.

- Implementation Date: *October 2019*
- Contact: *Director, Contract Management Division*

4. *Report vendor performance to the Office of the Comptroller of Public Accounts' VPTS.*

✦ Management Response:

- *The GLO is committed to reporting vendor performance as required.*

In 2019, the agency's made some changes to the process of reporting vendor performance. First, the agency moved the responsibility from Procurement to the Contract Management Division (CMD). Second, the agency assigned a Contract Technician the responsibility of reporting performance. Third, the agency used CMD's contract management system, Contract Lifecycle Management (CLM), to capture the required information, inform the Contract Technician of the reporting need, provide a means of tracking the reporting process, and allow for oversight.

With regards to the third change, CLM is a web-based system that the agency uses to track contract records. At the completion of each month, the assigned Contract Technician runs a report from

CLM for all contracts that have expired in the past month. The Technician verifies the expiration with the assigned Contract Manager and then creates an "Additional Form" in the record to indicate the reporting requirements. Contracts that are not reportable are marked as non-reportable and a reason is provided. For reportable contracts, this Additional Form becomes a method for tracking the reporting process.

CMD generates a vendor-performance form through CLM and sends it to the assigned Project Manager indicating the vendor's level of performance. This information is then returned to CMD and saved in the CLM record. Once all the information is received, the Contract Technician reports the performance. The date of the reporting is added to the Additional Form. In holding the information in CLM, CMD management can create a status report at the push of a button.

It is the GLO's opinion that the steps taken are adequate to mitigate future instances of noncompliance.

- Implementation Date: September 2019
 - Contact: Director, Contract Management Division
5. Ensure that it reviews and approves payment for invoices based on the pricing established in the contract.

✦ Management Response:

- The GLO concurs with the recommendation. The GLO-CDR Business Management section has an invoice review procedure that requires that all invoices include an itemized statement or summary of billed line items and be substantiated with source documents that may include Notice to Proceeds (NTPs), Acceptance of Deliverables (AODs), timesheets, receipts, or any other documents that directly support program costs. Invoices are reviewed for sufficient backup documentation, to ensure the accuracy of costs as specified in the work order/contract, check for double-billed items, correct budget information (including previously billed amounts, billed-to-date totals, and the amount remaining in the work order/contract), and correct PCA/DRGR allocation.

GLO-CDR will review its existing procedures to determine how they can be strengthened to incorporate the report recommendations.

Once updated, procedures will be implemented throughout GLO-CDR to ensure consistency in reviewing and approving invoices.

- *Implementation Date: November 2019*
- *Contact: Deputy Director of Monitoring and Quality Assurance, Community Development and Revitalization Division*

The Office Had Appropriate User Access Controls for Most of Its Information Systems

**Chapter 4
Rating:**
Low ¹²

The Office ensured that user access to three (75 percent) of four key information systems for managing the PREPS and CDBG-DR programs was reasonable and appropriate for users' job duties.

However, while the Office had appropriate user access controls over its file-sharing system for three Community Development and Revitalization program areas, auditors were unable to determine access appropriateness for 15 users with access to other Community Development and Revitalization program areas. A determination could not be made for those users because the documentation that the Office provided was not sufficient to identify whether (1) the users were current employees or vendors and (2) the access was necessary for users' job duties.

The Office's Key Information Systems

Auditors reviewed user access over the following key information systems for managing both the PREPS and CDBG-DR programs:

- The Office's procurement system.
- The Office's contracting system.
- The Office's grant management system.
- The Office's file-sharing system, which is used to collaborate on work performed for program oversight.

Source: The Office.

Recommendation

The Office should strengthen access controls over its key information system for managing the PREPS and CDBG-DR programs to ensure that all access is necessary and appropriate.

Management's Response

1. *The Office should strengthen access controls over its key information system for managing the PREPS and CDBG – DR programs to ensure that all access is necessary and appropriate.*

✦ Management Response:

- *The GLO concurs with the recommendation provided and is committed to ensuring that access controls for the file-sharing system are effectively implemented. We have revised our procedures used to ensure appropriate access controls are in place for the GLO-CDR file sharing system. The revision includes a*

¹² The risk related to the issues discussed in Chapter 4 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

periodic internal review of the system access permissions per functional group and data owner that will take place twice per year to identify the appropriateness of user access. It is the GLO's opinion that the steps taken are adequate to mitigate future instances of noncompliance.

- Implementation Date: October 2019
- Contact: Director, GLO-CDR Program Integration Section

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the General Land Office (Office) has processes and related controls to help ensure that it awards, disburses, and monitors Hurricane Harvey disaster recovery funds in accordance with applicable requirements.

Scope

The scope of this audit covered expenditures and contracts associated with Hurricane Harvey for the Partial Repair and Essential Power for Sheltering (PREPS) program through February 28, 2019. The scope also covered contracts associated with Hurricane Harvey for the Community Development Block Grant – Disaster Recovery (CDBG-DR) program through February 28, 2019, as well as expenditures and applications related to CDBG-DR through April 30, 2019.

Methodology

The audit methodology included reviewing a sample of homes repaired through PREPS to ensure that repairs were performed and within the project scope and that invoices had supporting documentation. It also included a review of samples of approved applications for three CDBG-DR programs to ensure that the Office appropriately determined eligibility for the programs. In addition, auditors tested a sample of administrative costs for the CDBG-DR program to ensure that costs were reasonable and allowable. Furthermore, auditors tested samples of contracts associated with both programs to ensure that they were planned, procured, formed, and monitored appropriately.

Data Reliability and Completeness

Auditors assessed the reliability of the following data sets and determined that they were all sufficiently reliable and complete for the purposes of this audit. To make that determination, auditors:

- Compared the list of all households identified as potentially eligible for the PREPS program to the total number of eligible households provided to the Office by the Federal Emergency Management Agency.

- Reviewed the queries that the Office used to extract the populations of applicants for the Homeowner Assistance Program and the Homeowner Reimbursement Program (both are CDBG-DR programs) to ensure that they were reasonable and provided complete populations.
- Reviewed the queries used to extract the population of contracts associated with PREPS and CDBG-DR to ensure that they were designed to extract a complete population.
- Compared detailed data to summary-level data for the population of applications approved for the Affordable Rental Program and determined that the population was reasonable and complete.
- Compared expenditure data for the CDBG-DR program from the Office's financial system to expenditure data extracted by auditors from the Uniform Statewide Accounting System to ensure that data was reasonable and complete.

Sampling Methodology

Auditors applied a nonstatistical sampling methodology to select, primarily through random selection, the following samples:

- To test whether the Office documented why applicants who initially opted in did not receive repairs under the PREPS program, auditors selected a sample of 25 of those applicants.
- To test whether the Office ensured that repairs performed through the PREPS program (1) were for eligible homes, (2) met program funding limits, (3) were within the approved work scope, and (4) had builder invoices that were supported by the work completed, auditors selected a sample of 60 homes.
- To test whether the Office correctly determined applicants' eligibility for the Homeowner Assistance Program and the Homeowner Reimbursement Program, auditors selected (1) a sample of 34 applications for the Homeowner Assistance Program and (2) the total population of the 2 approved applications for the Homeowner Reimbursement Program.
- To test whether the Office correctly determined applicants' eligibility for the Affordable Rental Program, auditors selected a sample of 14 approved applications using random selection and 1 additional application based on an assessment of risk.
- To test whether the Office planned, procured, and formed PREPS and CDBG-DR contracts in accordance with requirements, auditors selected a

sample of three contracts using random selection and an additional four contracts based on an assessment of risk.

- To test whether the Office sufficiently monitored PREPS and CDBG-DR contracts, auditors selected a sample of 11 contracts using random selection and an additional 3 contracts based on an assessment of risk.
- To test whether administrative costs associated with CDBG-DR were reasonable and allowable under applicable requirements, auditors selected a sample of 28 costs using a risk-based methodology.

The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- Applications and required supporting documentation for all audited programs, including associated documentation of reviews performed by the Office.
- Contract documents, including planning documents, solicitations, executed contracts and amendments, documentation supporting the Office's monitoring activities, and any building contractor or third-party vendor invoices.
- Invoices and supporting documents for administrative costs, grant recipients, building contractors, and third-party vendors.

Procedures and tests conducted included the following:

- Reviewed applications for PREPS and CDBG-DR to ensure that approved applicants were eligible and all required documentation was received and maintained.
- Reviewed CDBG-DR administrative costs to ensure that they were allowable and adequately supported.
- Reviewed contracts to ensure that they were planned, procured, formed, and monitored in accordance with applicable federal and state requirements.

Criteria used included the following:

- Office policies and procedures.
- Grant agreements for PREPS and CDBG-DR.

- *Federal Register*, Volume 82, No. 247.
- *Federal Register*, Volume 83, Nos. 28 and 157.
- Title 2, Code of Federal Regulations, Part 200.
- Title 24, Code of Federal Regulations, Part 570.
- The Office’s Hurricane Harvey State Action Plans and amendments.
- *State of Texas Contract Management Guide*, version 1.16.
- *State of Texas Procurement and Contract Manual*, version 1.1.

Project Information

Audit fieldwork was conducted from February 2019 through July 2019. We conducted this performance audit in accordance with generally accepted government auditing standards.¹³ 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. To mitigate any potential issues arising from a familial relationship, the First Assistant State Auditor recused herself from this audit. The audit was supervised, reviewed, and approved by Assistant State Auditor Angelica Ramirez.

The following members of the State Auditor’s staff performed the audit:

- Jennifer Brantley, MS, CPA (Project Manager)
- Scott Armstrong, CGAP (Assistant Project Manager)
- Steven Arnold
- Robert H. (Rob) Bollinger, CPA, CGMA, CFE
- Aaron Daigle, CPA
- Chase Dierschke, MAcy, CIA
- John Felchak
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

¹³ United States Government Accountability Office’s *Government Auditing Standards*, 2011 Revision.

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Community Development Block Grant - Disaster Recovery for Hurricane Harvey

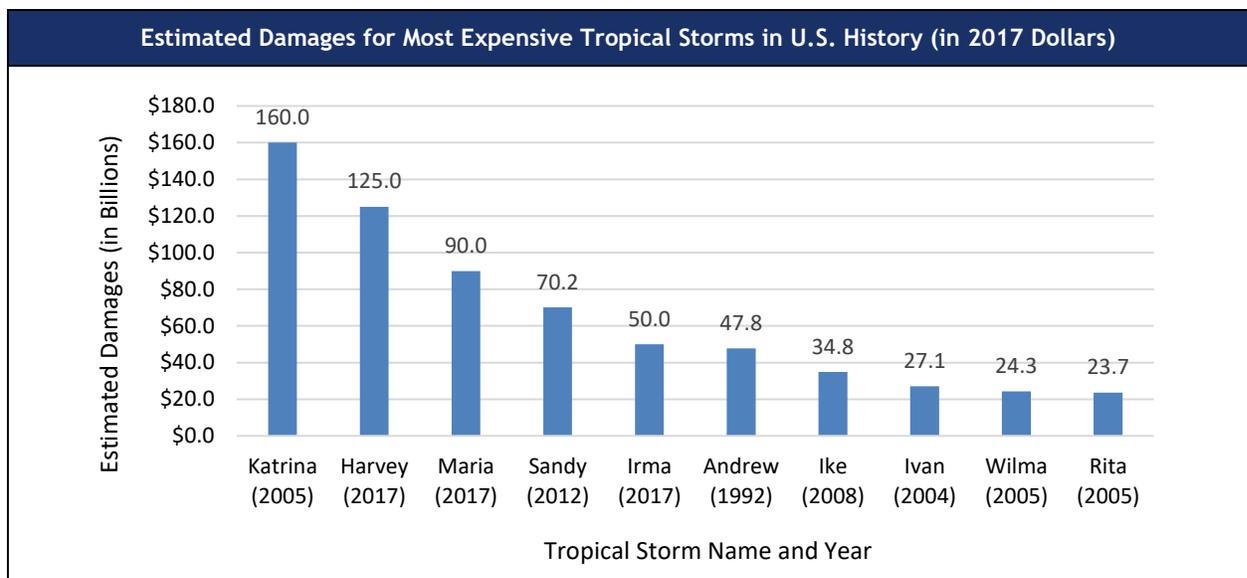
At the time of this audit, the General Land Office (Office) was in the early stages of the application and construction process for the three audited Community Development Block Grant – Disaster Recovery (CDBG-DR) programs: (1) the Homeowner Assistance Program, (2) the Homeowner Reimbursement Program, and (3) the Affordable Rental Program. Additionally, the Office was developing its policies and procedures for those programs and implementing a new grant management system to support those procedures.

Hurricane Harvey Background

Hurricane Harvey made landfall in Texas as a Category 4 hurricane on August 25, 2017. The storm stalled over the coast of Texas and surrounding areas for 5 days, resulting in record rainfall between 35 inches and 60 inches. As a result, many homes flooded which had never previously done so.

The Office estimated that more than 1 million homes were affected by Hurricane Harvey. As of May 2018, the National Oceanic and Atmospheric Administration (NOAA) estimated total damages resulting from Hurricane Harvey as approximately \$125 billion, making it the second-costliest storm event on record after Hurricane Katrina in 2005 (see Figure 6 for NOAA’s list of the top 10 most expensive storm events in U.S. history as of 2017).

Figure 6

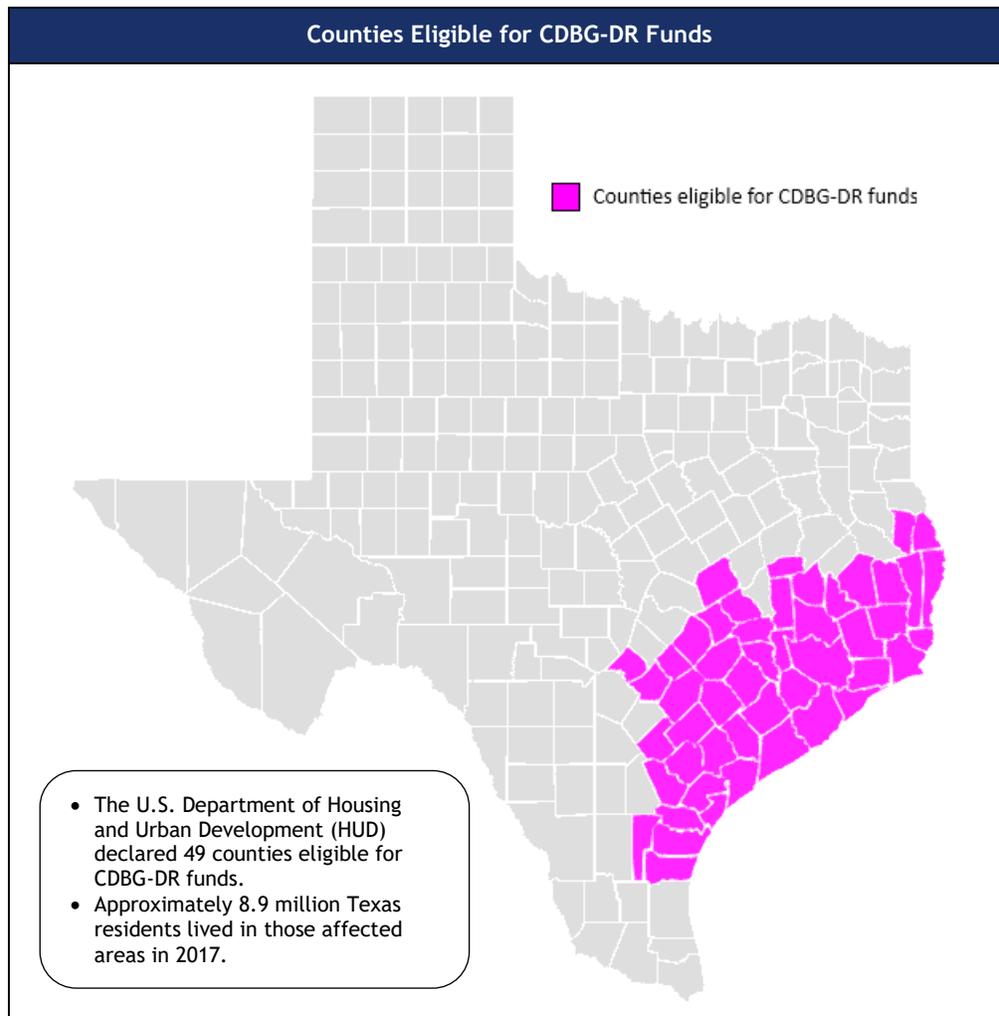


Source: NOAA.

CDBG-DR Eligibility and Funding Process

Eligibility. Figure 7 is a map showing the 49 counties designated as being eligible for CDBG-DR funds.

Figure 7



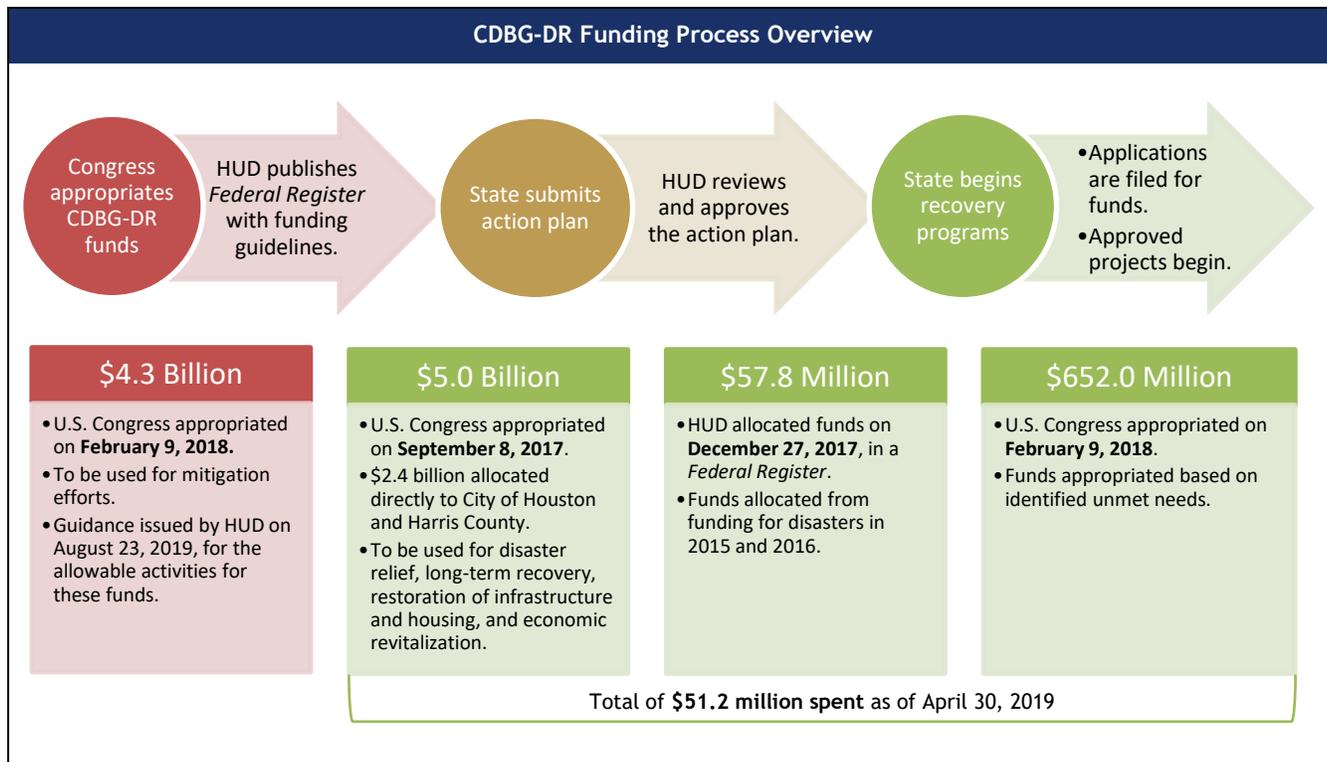
Source: Based on information provided by the Office.

Funding Process. CDBG-DR program funds may be appropriated by the U.S. Congress in response to a presidentially declared disaster. For those funds to be disbursed for program purposes, HUD must issue guidance and approve a State Action Plan developed by the Office. CDBG-DR funds may be used for a broad range of recovery activities, but they must address a disaster-related issue and meet a CDBG national objective.

Due to the extent of flooding and the number of damaged homes as a result of Hurricane Harvey, the U.S. Congress appropriated a total of approximately \$10 billion in 2017 and 2018 for the State of Texas for disaster recovery funding. In comparison, HUD awarded a total of \$35.8 billion in CDBG-DR funds in fiscal years 2017 and 2018 for U.S. disasters.

Figure 8 shows the CDBG-DR funding process.

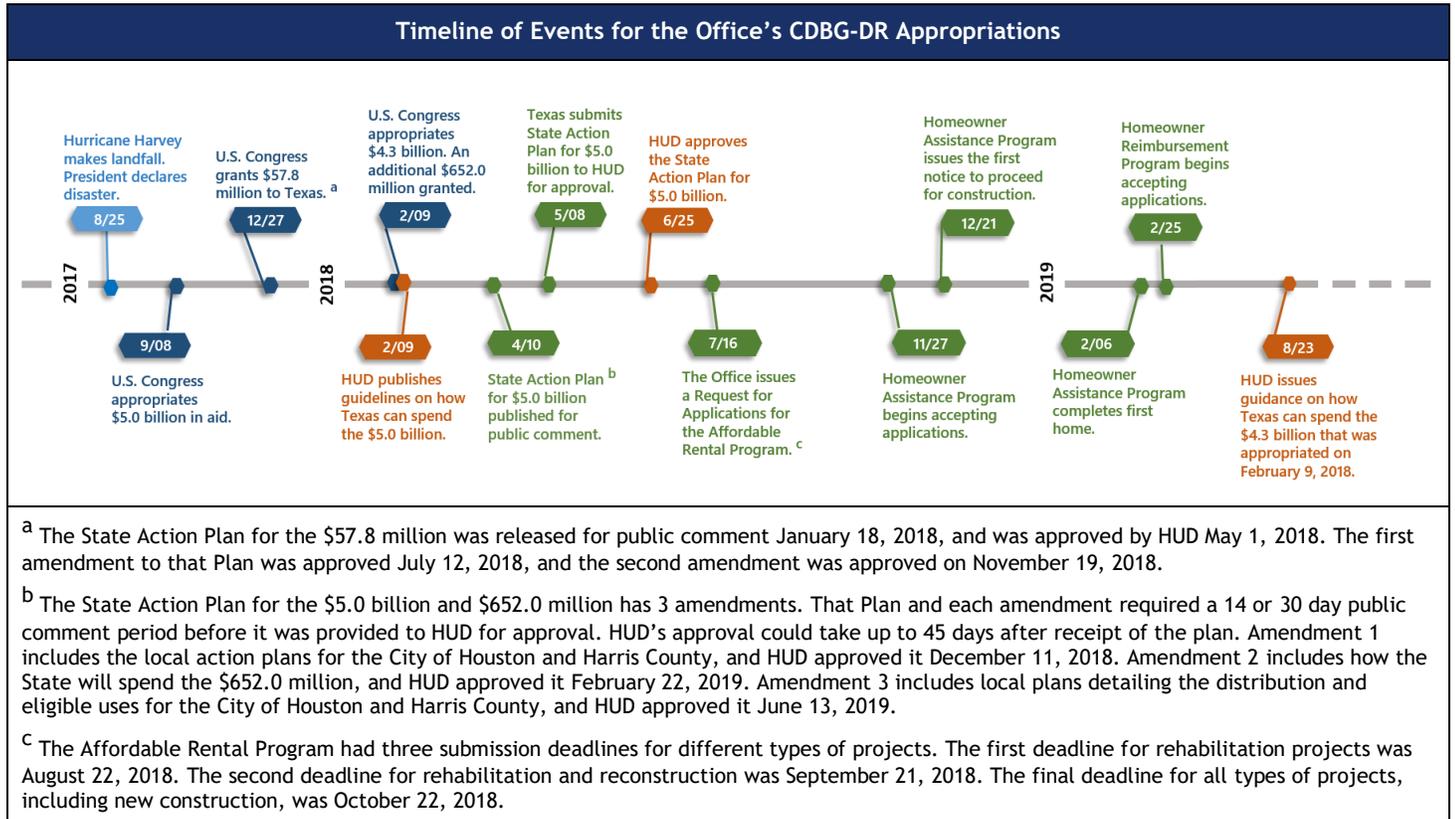
Figure 8



Source: Based on information provided by the Office.

Figure 9 provides a timeline of key dates in the CDBG-DR process.

Figure 9



Source: Based on information provided by the Office.

Application Process and Statuses for CDBG-DR-funded Programs

Homeowner Reimbursement Program and Homeowner Assistance Program. The Office began accepting applications for the Homeowner Reimbursement Program in February 2019 and for the Homeowner Assistance Program in November 2018 (see Chapter 2-A for additional information on these programs). As of April 2019, the Office had approved 2 applications for the Homeowner Reimbursement Program and 169 applications for the Homeowner Assistance Program.

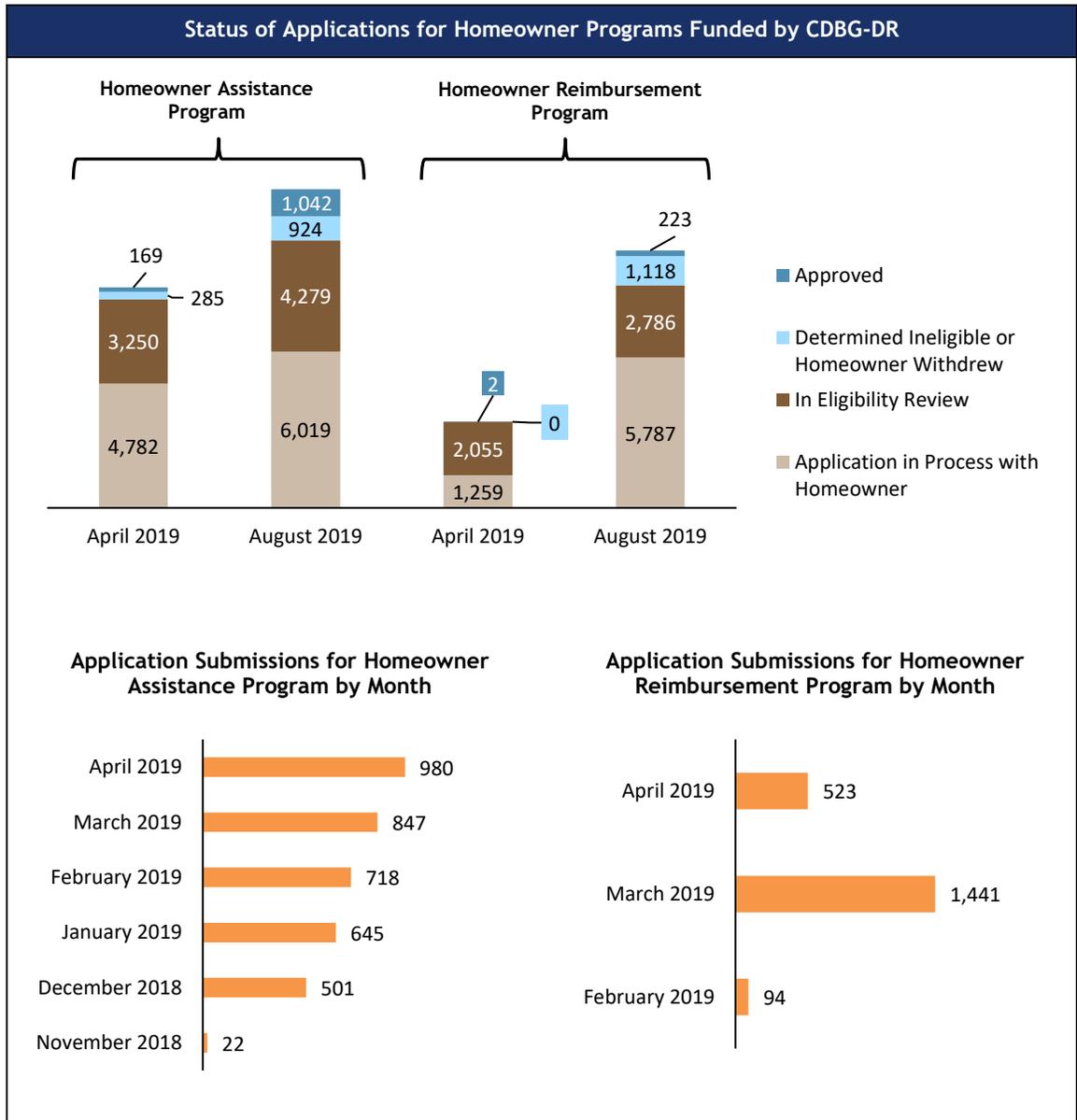
For both programs, a homeowner must complete and submit an application before the Office begins its eligibility review. Throughout that review, the Office may request additional information and documentation from the applicant.

The Office asserted that it updates processes as it identifies opportunities for improvement during application reviews. Additionally, the Office received an influx of applications for both programs shortly after beginning to accept applications.

The Office regularly publishes updated application status totals for both the Homeowner Reimbursement Program and Homeowner Assistance Program on its Recovery Web site (<https://recovery.texas.gov>). The Office asserted that those totals may include duplicate applications.

Figure 10 shows the application statuses and the number of applications submitted for both programs during the scope of the audit (ending April 2019). Figure 10 also includes application statuses that the Office reported on its Web site as of August 2019.

Figure 10

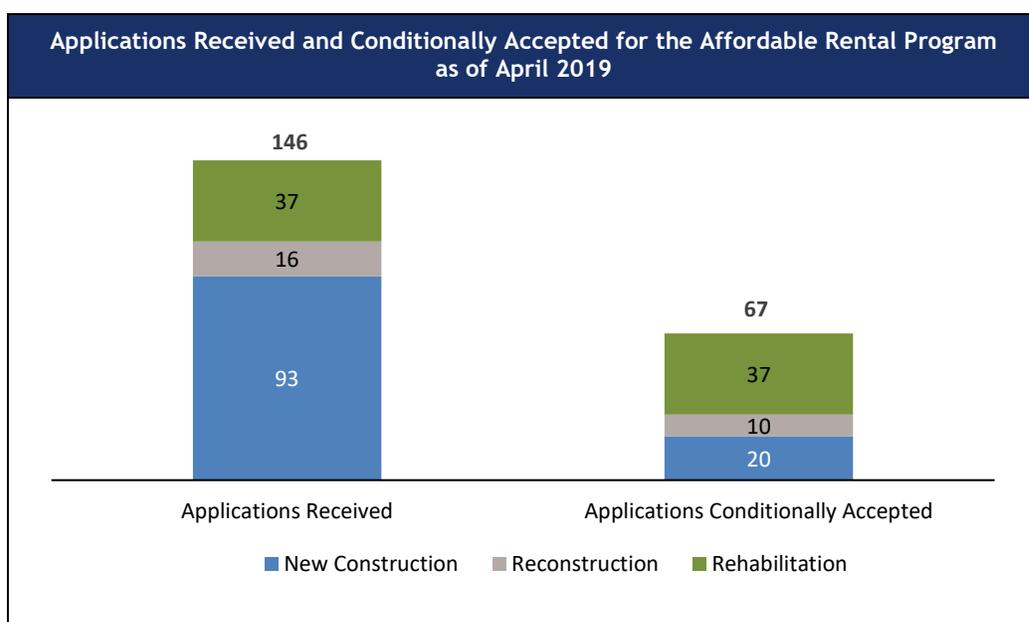


Source: Based on information provided by the Office.

Affordable Rental Program. The Office accepted applications for the Affordable Rental Program from July 2018 through October 2018. As of April 2019, the Office had conditionally accepted¹⁴ 67 applications totaling \$422.8 million. The Office performed a due diligence review on those accepted applications to ensure that the proposed projects met applicable requirements (see Chapter 2-B for more information on the Affordable Rental Program). The total awarded amount for a project could change based on the results of that review.

Figure 11 below summarizes the total number of applications received and conditionally accepted as of April 2019.

Figure 11



Source: Based on information provided by the Office.

Funding Distribution. As of April 30, 2019, the Office had expended approximately \$51.2 million in CDBG-DR funds for Hurricane Harvey recovery activities of the \$5.7 billion in CDBG-DR funds that had an approved State Action Plan. The approved State Action Plan for the \$5.7 billion in CDBG-DR program funding distributed that funding among several recovery assistance programs. Of the \$5.7 billion, a total of \$2.5 billion was allocated directly to Harris County and the City of Houston, and those entities are responsible for developing and administering their own programs. The Office directly administers the remaining \$3.2 billion for the remaining 48 eligible counties.

¹⁴ The General Land Office issued letters conditionally accepting applications that were complete based on its prioritization process. Those letters did not constitute a contractual agreement, and they stated that a contract would only be executed if the application (1) cleared an environmental review, (2) was approved by HUD, and (3) was determined to be in compliance with the federal Affirmatively Furthering Fair Housing Law.

Table 3 contains a description of each program and the amount of the appropriation allocated to each program.

Table 3

CDBG-DR Programs Administered by the Office			
CDBG-DR Program	Program Description	Allocation of Appropriations ^a	Program Status as of August 30, 2019
Homeowner Assistance Program	Provides funding for rehabilitation and reconstruction of owner-occupied single-family homes damaged by Hurricane Harvey.	\$1.33 billion	Accepting applications and construction underway.
Homeowner Reimbursement Program	Allows homeowners to be reimbursed for certain out-of-pocket home repair expenses including reconstruction, rehabilitation, or mitigation up to \$50,000.	\$100.0 million	Accepting applications and providing reimbursements.
Local Buyout and Acquisition Program	Local governments may buyout or acquire eligible homes at a pre-storm or post-storm fair market value to move homeowners out of harm's way outside of a floodplain to a lower-risk area.	\$275.0 million	Administered by local units of governments (cities and counties). Applications due August 31, 2019.
Affordable Rental Program	Provides funding for rehabilitation, reconstruction, and new construction of affordable multifamily housing units in areas affected by Hurricane Harvey.	\$450.0 million	Contracts awarded and construction ongoing.
Economic Revitalization Program	Allows for interim assistance (up to \$250,000) to small businesses affected by Hurricane Harvey through deferred forgivable loans in exchange for job creation or retention for low- to moderate-income employees. Small businesses within Harris County and the City of Houston will be eligible to apply for this program.	\$100.0 million	Program in design stage. The Office plans to launch fall 2019.
Local Infrastructure Program	Repairs, enhances, and restores infrastructure for local communities affected by Hurricane Harvey as part of a comprehensive long-term recovery program.	\$413.0 million	Applications due August 31, 2019.
Local, Regional, and State Planning	In collaboration with local communities, the Office will conduct planning studies in the affected areas with the purpose of promoting sound regional long-term recovery.	\$137.0 million	Projects at various stages of procurement.
Harris County - Direct Allocation	Harris County has chosen to develop its own local recovery programs similar to those described in this table with the exception of the Economic Revitalization Program.	\$1.22 billion	Accepting applications for some programs.
City of Houston - Direct Allocation	The City of Houston has chosen to develop its own local recovery programs similar to those described in this table with the exception of the Economic Revitalization Program.	\$1.26 billion	Accepting applications for some programs.
^a Due to rounding and administrative expenditures, the amount of the allocations listed in this table does not equal the total \$5.7 billion in appropriations awarded to Texas. In addition, this table does not include any allocations for the February 2018 \$4.3 billion appropriation, as HUD released guidance on August 23, 2019, on how that appropriation can be spent.			

Source: The Office.

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