

Selected Assistance Programs at the Department of Housing and Community Affairs

Overall Conclusion

The Department of Housing and Community Affairs (Department) has significant weaknesses in its Weatherization Assistance Program (WAP) that allow subgrantees to provide unallowable weatherization services to people who do not qualify for participation in this program. (In conjunction with a federal investigation, the State Auditor's Office Special Investigations Unit is investigating one of the WAP subgrantees we audited and will report the results of that investigation separately.) The other four programs we audited have some, but not all, of the same weaknesses we identified in the WAP; those weaknesses also could allow unqualified people to receive services.

The Department also is not adequately addressing the current unmet need for housing as it relates to the Section 8 Housing Choice Voucher (Section 8) Program, and it has not fully corrected several Section 8 noncompliance issues identified in federal and external reviews conducted in 2000.

The Department has not made cost-effective decisions regarding its WAP energy audit software. Other weaknesses in information technology at the Department and its subgrantees limit the Department's ability to rely on the data in its information systems.

The Department generally disburses funds according to the objectives of the five programs we audited. However, it reports that it did not spend \$830,000 (nearly 9 percent) of its Section 8 budget during program year 2002. The Department generally spends all available funds for the other four programs we audited. Almost all of the \$95 million in funding disbursed annually through the five programs we audited comes from the federal government.

Assistance Programs Audited

We audited the following programs at the Department:

- Weatherization Assistance Program
- Section 8 Housing Choice Voucher Program
- Comprehensive Energy Assistance Program
- Community Services Block Grant
- Emergency Shelter Grant Program

With the exception of the Weatherization Assistance Program, all of the funding for these programs comes from the federal government. The Weatherization Assistance Program is funded both through federal funds and the State's System Benefit Fund.

Appendix 2 summarizes the programs we audited, the services each program provides, the amount of funds associated with each program, and the areas in which we identified weaknesses in each program.

Key Points

Eligibility issues increase the risk that WAP subgrantees could provide unallowable weatherization services to people who do not qualify for participation in this program.

The Department does not ensure that WAP subgrantees comply with program requirements to ensure that allowable weatherization services are delivered to the low-income people



for whom the program was intended. Examples of requirements with which subgrantees have not complied include conducting required energy audits to determine which weatherization services should be provided and ensuring that 66 percent of the rental units per building in a multi-family dwelling are inhabited by people who meet the income threshold.

Weaknesses in the process that three programs use to determine income eligibility increase the risk that ineligible applicants could receive program services.

Subgrantees for the Department's WAP, Comprehensive Energy Assistance Program (CEAP), and Community Services Block Grant (CSBG) annualize applicants' 30-day household incomes across an entire year to determine whether the applicants meet income eligibility thresholds. However, this method enables ineligible applicants to receive services. Ten percent of the households we tested received services even though their annual household incomes (according to Texas Workforce Commission data) exceeded the relevant program's income eligibility thresholds.

The Department is not adequately addressing the current unmet need for housing as it relates to the Section 8 program.

At the end of program year 2002, local operators through which the Department administers its Section 8 program had awarded only 88 percent of Section 8 housing assistance vouchers. This left 247 vouchers (12 percent of the Department's allotment) unused. At the same time, however, the local operators maintain waiting lists for this program.

In addition, the U.S. Department of Housing and Urban Development may reduce the Department's future Section 8 funding because the Department:

- Has not achieved full compliance with several of the issues identified in 2000.
- Had awarded less than 90 percent of its Section 8 vouchers by the end of program year 2002.

The Department has not made cost-effective decisions regarding its WAP program energy audit software, and other information technology weaknesses limit the Department's ability to rely on the data in its information systems.

Although free energy audit software for the Department's WAP program is available from the federal government, the Department paid a vendor \$232,000 to develop another energy audit program called Easy Audit. It is spending an additional \$240,000 to upgrade that software. In addition, weaknesses in Easy Audit limit its reliability and effectiveness.

Other information technology weaknesses we identified at the Department include its automated system losing electronic signatures, its lack of an alternative site agreement, and inconsistent data in its automated systems.

The Department generally disburses funds according to program objectives, but it does not always target priority populations.

The Department generally disburses funds according to the objectives of each of the programs we audited. However, the Department does not ensure that WAP subgrantees target weatherization services to priority populations, such as the elderly and disabled, that the U.S. Department of Energy has established.

Summary of Management's Response

The Department generally agrees with our recommendations and has begun to implement corrective action. However, the Department's response did not address our recommendations regarding its WAP energy audit software. We have provided a follow-up comment to express concern that the Department has not justified the \$472,000 it is spending to develop and upgrade the software, that this software has certain flaws that an upgrade may not correct, and that the Department does not own the software source code. The Department's full response and our follow-up comment appear in Appendix 4.

Summary of Information Technology Review

We focused our information technology (IT) work on reviewing the Department's Genesis system, which stores financial and performance information on the programs. The Department developed Genesis, and it is now developing a new central database system to replace Genesis. We also audited the manual interface between Genesis and the Client Server Accounting System (CSAS), the Department's internal accounting system. We found that Genesis contains inaccurate data because when Department users change the information in CSAS, they are not required to make the same changes to the information in Genesis. In addition, we reviewed IT controls at the subgrantees we audited.

As discussed in the Key Points, the Department should strengthen controls over the acquisition of its Easy Audit software; it should also strengthen certain controls over IT in areas such as electronic signatures and the establishment of an alternative site agreement. Chapter 3 of this report contains details on our review of IT.

Summary of Objectives, Scope, and Methodology

For each of the five programs we audited, our objectives were to answer the following questions:

- When funds reach the communities, are subgrantees spending them to provide eligible services to eligible people?
- Does the Department disburse funds according to program objectives?
- Did the Department spend all available funds to maximize service delivery?

As part of the above objectives, we also audited the Department's program monitoring and related information technology.

For the Section 8 program, we had additional objectives to (1) determine whether the Department is addressing the current unmet need for housing and (2) follow up on the Department's noncompliance with Section 8 requirements that the U.S. Department of Housing and Urban Development and an external auditor previously identified.

Our scope covered program activities at the Department and five subgrantees during fiscal years 2001 and 2002. The audit methodology consisted of collecting information, performing selected tests and other procedures, analyzing and evaluating the results against established criteria, and conducting interviews with Department management and staff.



| Table of Results and Recommendations  denotes entry is related to information technology |
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| Eligibility issues unique to the weatherization of multi-family dwellings increase the risk that subgrantees could provide unallowable services to ineligible people. (Page 1) |
| The Department should: <ul style="list-style-type: none"> ▪ Determine whether the multi-family dwellings that received WAP services in fiscal years 2001 and 2002 were actually eligible for these services. If these dwellings were not eligible, the Department should recover the amounts that it paid for these services from the subgrantees. ▪ Develop, communicate, and enforce policies and procedures to ensure that it achieves the following outcomes for the WAP program: <ul style="list-style-type: none"> ♦ Each building in a multi-family dwelling has at least the required percentage of income-eligible units. ♦ Subgrantees do not spend more than the maximum amounts of federal funds allowed to weatherize individual units in a building in a multi-family dwelling. ♦ Subgrantees have appropriately ensured that, before the weatherization work begins, (1) the applicant and the dwelling unit are eligible and (2) all required documentation is completed. ♦ The owner of the multi-family dwelling provides the required assurance that the low-income residents will not be subjected to rent increases as a result of receiving weatherization services. The above goals could be accomplished through a monitoring or preapproval process. ▪ Require that WAP subgrantees provide the Department with monthly status updates on (1) how much they have spent from all federal and state sources to weatherize each multi-family dwelling and (2) what percentage of the work on each dwelling has been finished. Using this information, the Department should track the amount of program funds that have been spent to weatherize multi-family and single-family dwellings. |
| Weaknesses in the process that three programs use to determine income eligibility increase the risk that ineligible applicants could receive program services. (Page 5) |
| For the WAP, CEAP, and CSBG programs, the Department should obtain information for household income for a period that is longer than 30 days to determine an applicant's income eligibility. The period selected should provide reasonable assurance that the Department is not providing services to people whose household income levels exceed the income eligibility threshold. |
| The Department does not ensure that WAP subgrantees provide allowable, cost-effective services. (Page 5) |
| The Department should: <ul style="list-style-type: none"> ▪ Ensure that WAP subgrantees consistently document their decision criteria for providing weatherization services to WAP applicants. ▪ Ensure that WAP subgrantees provide services only to applicants who meet the program's eligibility criteria. ▪ Ensure that WAP subgrantees obtain residents' signatures on final inspection forms to verify that the weatherization work was actually performed. |

Table of Results and Recommendations

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- Ensure that, because the energy audits are a critical factor in the determination of which services will be performed, subgrantees:
 - ♦ Input adequate data into the energy audit software.
 - ♦ Conduct energy audits before providing weatherization services.
 - ♦ Perform separate energy audits for each unit to be weatherized.
 - ♦ Allow only qualified individuals to conduct the energy audits.
- Provide adequate guidance to subgrantees to ensure that subgrantees maintain current contracts with weatherization contractors and pay contractors reasonable prices. If the Department chooses to allow a variety of contract pricing mechanisms, it should provide guidance related to each alternative and describe the associated benefits and risks. If payments are based on costs, subgrantees need to verify the accuracy of contractor's claimed costs; if payments are based on a flat rate, subgrantees' contracts must include clear statements of work so that the flat rate can be justified.

The Department's monitoring of WAP, CEAP, and CSBG Subgrantees does not ensure that subgrantees provide allowable services to eligible people. (Page 7)

The Department should:

- Not close files that have issues it identifies during monitoring at WAP, CEAP, and CSBG subgrantees until the subgrantees have corrected these issues.
- Provide copies of its WAP, CEAP, and CSBG monitoring reports to subgrantees' board chairs to help ensure that subgrantees address issues identified during monitoring.
- Develop WAP monitoring standards that ensure that monitors review a sufficient amount of information to support their conclusions. WAP monitors also should document which contracts, files, and other documentation they reviewed to draw their conclusions.

The Department is not addressing the unmet need for housing as it relates to the Section 8 program. (Page 10)

The Department should coordinate with HUD to explore methods to increase the percentage of Section 8 vouchers it awards.

The Department cannot ensure that local operators award Section 8 vouchers to families in the required order. (Page 12)


The Department should require that local operators provide enough information so that the Department can verify whether local operators award vouchers to the individuals who have waited the longest to receive them.


Although the Department has made some progress, it has not fully corrected several Section 8 noncompliance issues identified by HUD and an external auditor. (Page 12)

The Department should:

- Ensure that local operators complete all required elements on Section 8 waiting lists.
- Ensure that Section 8 files contain notification letters informing applicants that vouchers may be available to them.
- Ensure that Section 8 rent reasonableness is adequately tested and documented.
- Ensure that old versions of the Section 8 lease addendum form are not readily available to staff or local operators, and conduct sufficient reviews of Section 8 files to detect the use of incorrect or obsolete forms.
- Submit a Section 8 family self-sufficiency plan or obtain an exemption from this requirement.
- Implement an annual file review to re-examine family income for each Section 8 participant as recommended by the external auditor.
- Determine why documents are not in Section 8 files, despite the Department's supervisory review process. If necessary, the Department should consider a second level of review to ensure that tenant files contain all required documents.

Table of Results and Recommendations

 denotes entry is related to information technology

 The Department has not made cost-effective decisions regarding its energy audit software, and weaknesses in this software can affect eligibility determination. (Page 14)


The Department should conduct and document a thorough cost-benefit analysis to determine which energy audit software—the free federal software or Easy Audit—is the best and most cost-effective energy audit software to use in the WAP program. This analysis should consider the costs associated with addressing all federal restrictions on the Department’s use of Easy Audit, as well as consideration of the following:

- Upgrading Easy Audit to ensure that (1) electronic energy audit files are accessible or (2) the hard-copy printouts display enough of the data that subgrantees input so that monitors can verify that subgrantees input the right prices and costs into the software. This will enable monitors to trace the data inputs from the testing document to the Easy Audit electronic file or the hard-copy printout.
- Removing cost and efficiency ratio default numbers from Easy Audit so that subgrantees would be required to input actual numbers for key measurements.
- Adding edit checks to Easy Audit to verify that the cost and efficiency ratios entered are within acceptable ranges.

 Certain information technology weaknesses at the Department limit the security and integrity of information. (Page 16)

The Department should:

- Ensure that it has valid contracts with subgrantees by restoring missing electronic contract signatures or by obtaining ratifying signatures for its current contracts. In addition, the Department should monitor the maintenance of these signatures, and ensure that this problem will not recur in the new central database system. The maintenance of these signatures should be tested before the new central database system is considered complete.
- Enter into an alternative site agreement through which it would have the necessary hardware to run its applications in the event of a disaster. Because full implementation of the new central database system will not be complete until August 2005, the alternative site agreement should be able to run applications in the Department’s existing system, as well as applications in the Department’s new central database system.
- Ensure that decisions are made based on accurate information. The Department should duplicate in Genesis any changes it makes in CSAS. In addition, the Department should implement a reconciliation process between Genesis and CSAS.
- Ensure that the information in its ESGP monitoring tracking system is accurate.

 Information technology weaknesses at subgrantees limit the Department’s ability to safeguard information. (Page 17)

The Department should:

- Provide subgrantees with technical assistance regarding IT system controls to ensure that subgrantees maintain the integrity of and adequately safeguard information.
- Monitor IT controls at subgrantees to ensure that they maintain the integrity of and adequately safeguard information.

The Department does not ensure that WAP subgrantees target weatherization services to established priority populations. (Page 19)

The Department should:

- Ensure that priority populations are given priority to WAP services.
- Ensure that the priority populations specified in its contracts with WAP subgrantees are consistent with the priority populations established by the federal government.

The Department lacks a policy to preclude ESGP subgrantees from approving their own grant awards. (Page 20)

The Department should develop and implement policies and procedures to preclude ESGP grant recipients from serving on the team that reviews their own applications and retain sufficient documentation to demonstrate that ESGP grant recipients do not review their own applications for funds.

| Recent SAO Work | | |
|-----------------|--|---------------|
| Number | Product Name | Release Date |
| 03-025 | An Audit Report on Compliance with Benefits Proportional by Fund Requirements at 20 State Entities | March 2003 |
| 03-008 | An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities | November 2002 |
| 01-013 | An Audit Report on the Integrated Statewide Administrative System at Selected Agencies | January 2001 |
| 01-009 | An Audit Report on the Department of Housing and Community Affairs | December 2000 |