

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

An Internal Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC), Audit Report # 23-005

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC). This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess, and evaluate CDBG-related programs for compliance with applicable rules and regulations. Based on our review and testing, the CDBG-CV and CDBG-CSHC programs appear to be operating effectively in providing COVID-19 assistance and assistance to Texans residing in the colonias, respectively. The auditor has identified the following areas that necessitate improvement, all of which have been detailed in the final audit report.

Please note the recommendations below were split into two sections: CDBG-CV and CDBG-CSHC. This decision was made to emphasize that although the CDBG-CV and CDBG-CSHC programs share a name, they are separate programs with differing structures that are managed by different teams.

Observations and Recommendations

1) CDBG-CV

- IA recommends that the division ensures that all sub-recipients are up-to-date on required single audits throughout contract duration.

2) CDBG-CSHC

- *The auditor has made no recommendations regarding this program*

Management Response

Management agreed with our recommendation, and detailed response is included in the body of the report.

Objective, Scope and Methodology

1) CDBG-CV

Our scope included a review of related Texas Administrative Codes¹, relevant Code of Federal Regulations regarding CDBG programs², Texas Grant Management Standards, the Stafford Act, Action Plan Amendments, Notices of Funding Availability (NOFA), TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

¹ TAC Chapters 1, 2, 3, and 20.

² 24 CFR Part 570, 24 CFR Part 75, 24 CFR Part 58, 2 CFR Part 200, 24 CFR Part 35

2) **CDBG-CSHC**

Our scope included review of related Texas Administrative Codes³, relevant Code of Federal Regulations regarding CDBG programs⁴, TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

Mark Scott

11/17/2023

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

Date Signed

³ TAC Title 10 Part 1 Chapter 25, Chapter 20, Chapter 21

⁴ 24 CFR Part 570



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November 17, 2023

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Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC)

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC)*". This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess, and evaluate CDBG-related programs for compliance with applicable rules and regulations.

The CDBG-CV program rated high on the annual risk assessment and was selected for an internal audit because of its importance in helping Texans respond to and recover from the impacts of the COVID-19. The Governor of the State of Texas has designated the TDHCA as the administrator of this program. The TDHCA was awarded \$141,846,258 by the U.S. Department of Housing and Urban Development (HUD) to award CDBG-CV funds to various sub-recipients around the state. The CDBG-CSHC program is a smaller program separate from CDBG-CV and focuses on assisting the colonias of Texas. CDBG-CSHC was included in the audit because it is a component of TDHCA

CDBG program activities in general, and, due to its sub-recipient relationship with the Texas Department of Agriculture (TDA), this particular program may not otherwise be reviewed in larger internal audit risk assessment process.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities
- E. Testing and Recommendations

It is important to emphasize that although the CDBG-CV and CDBG-CSHC programs share a name, they are separate programs with differing structures that are managed by different teams. The CDBG-CV program was implemented as an emergency measure to assist Texans negatively impacted by COVID-19, and is subject to special rules and regulations drafted during the pandemic. The CDBG-CSHC program, on the other hand, receives funding from the CDBG program managed by the TDA, with the TDHCA acting as a sub-recipient. This program is not subject to the same special provisions as the CDBG-CV program. As a result, the auditor has chosen to subject each program to different audit review and testing depending on the unique risks identified within each program. This report will be split into two sections accordingly — CDBG-CV and CDBG-CSHC — to ensure clarity.

A. Overall Results

1) CDBG-CV

Based on our review and testing, the CDBG-CV program appears to be operating effectively in providing COVID-19 relief to at-risk Texans. The auditor has identified some recommended areas for improvement.

2) CDBG-CSHC

Based on our review and testing, the CDBG-CSHC program appears to be operating effectively in providing assistance to individuals residing within the colonias. The auditor has no further recommendations.

B. Background

1) CDBG-CV

The CDBG-CV program was implemented in response to the unprecedented need for assistance for Texans that occurred as a result of the COVID-19 pandemic. Although typically Texas CDBG

programs are overseen by the TDA, the TDHCA was chosen to administer the CDBG-CV programs on behalf of the Department of Housing and Urban Development. The TDHCA was allowed some flexibility by HUD on how to administer the funds based on the immediate needs of Texans. After garnering Board approval, the following programs were created to address the following issues: the Texas Emergency Rental Assistance Program (TERAP) to administer statewide rental assistance, the Texas Emergency Mortgage Assistance Program (TEMAP) to provide statewide mortgage assistance, food distribution assistance to address food insecurity, legal assistance for Texans with disabilities, relief assistance for providers of persons with disabilities, and the Community Resiliency Program (CRP) to provide access to social services and healthcare to low-and-moderate income (LMI) areas and persons. The TDHCA was granted \$141,846,258.00, which was allocated amongst 111 different sub-recipients to implement said programs. Some sub-recipients were specifically selected based on the needs of Texans, whereas other sub-recipients were selected through a competitive Notice of Funding Availability (NOFA). Three Action Plan Amendments were implemented to re-adjust the allocation of funds. Currently, 65.45% of those funds have been spent, with a deadline of November 3, 2026 for all CDBG-CV funds to be expended. As of the writing of this report, \$15,866.66, or 1% of total funds, have been recaptured due to de-obligation from earlier contracts and will be recommitted to eligible CRP activities.

2) CDBG-CSHC

The Colonia Self Help Center (CSHC) program was established in 1995 to improve the living conditions of colonia residents, especially those of whom are low income to very low income, with public service activities such as a tool lending library, technology center, solid waste collections, and other general community assistance opportunities. The TDHCA has contracted with Val Verde, Maverick, Nueces, Cameron/Willacy, Hidalgo, Starr, Webb and El Paso counties to serve all colonias geographically. Specific households within the colonia service areas have the option to be assisted with home rehabilitation, reconstruction, and new construction activities. The program is awarded approximately \$1,500,000 annually, which is distributed amongst the seven selected colonia sub-recipients. De-obligated funds may also be re-awarded to sub-recipients. TDHCA program administrators work with local county partners and the Colonia Resident Advisory Committee (C-RAC) in the administration of these awards.

C. Scope and Methodology

1) CDBG-CV

Our scope included a review of related Texas Administrative Codes¹, relevant Code of Federal Regulations regarding CDBG programs², Texas Grant Management Standards, the Stafford Act, Action Plan Amendments, Notices of Funding Availability (NOFA), TDHCA issued sub-recipient

¹ TAC Chapters 1, 2, 3, and 20.

² 24 CFR Part 570, 24 CFR Part 75, 24 CFR Part 58, 2 CFR Part 200, 24 CFR Part 35

contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

2) CDBG-CSHC

Our scope included review of related Texas Administrative Codes³, relevant Code of Federal Regulations regarding CDBG programs⁴, TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

D. Roles and Responsibilities

1) CDBG-CV

PROGRAM STAFF: The CDBG-CV program is supervised by a team of administrators consisting of a director, two program managers, and 4 program coordinators. The team also includes a financial administrator that monitors draw requests and a part time Labor Standards Specialist that assists with compliance regarding CRP labor standard requirements. The Sub-recipient Monitoring Division at TDHCA is responsible for monitoring sub-recipient compliance.

SUB-RECIPIENTS: TDHCA program administrators awarded the funds to 111 different sub-recipients. CDBG-CV sub-recipients consist of local non-profit entities and city or county administrators. Sub-recipients associated with the TERAP were selected from a list of HUD Entitlement Communities. Sub-recipients associated with the Assistance for Providers for Persons with Disabilities, Legal Services for Persons with Disabilities, and Food Distribution programs were selected after garnering Board approval for providing services to Texans in need of assistance. Sub-recipients associated with the TMAP and CRP programs were selected through a competitive NOFA issued by TDHCA. Contracts issued are one to two years in length.

PARTICIPANTS: The final participants in the CDBG-CV programs are the Texans that received aid from the program. This includes people receiving financial assistance in the form of rental or mortgage assistance, food assistance, legal support, support for providers of individuals with disabilities, or support to other at-risk individuals and communities.

2) CDBG-CSHC

PROGRAM STAFF: The CDBG-CSHC program is managed by one administrator and a border field officer to oversee contract implementation, with further oversight from the manager of Single Family programs. These programs are overseen by the Director of the Single Family and Homeless Division.

³ TAC Title 10 Part 1 Chapter 25, Chapter 20, Chapter 21

⁴ 24 CFR Part 570

SUB-RECIPIENTS: Sub-recipients of CDBG-CSHC funds are Texas counties Val Verde, Maverick, Nueces, Cameron/Willacy, Hidalgo, Starr, Webb and El Paso, which serve the wider colonias geographically. TDHCA program administrators work with local county partners and the Colonia Resident Advisory Committee (C-RAC) to manage sub-recipient activities.

PARTICIPANTS: The final participants in the CDBG-CSHC program are the individuals and families that live in the colonias. They receive benefit from the programs overseen by TDHCA staff. The majority of the colonia residents served by the CDBG-CSHC program are low to very low income Texans.

E. Testing and Recommendations

1) CDBG-CV

The auditor began the review by conducting a cursory check of all 111 sub-recipients contracted under the CDBG-CV program. Out of 111 sub-recipients, four were hand-chosen for more detailed review and testing based on assessed risk using the following indicators: the status of single audits, amount of funds awarded, and complaints received from the general public. Two sub-recipients, Need a Break, Inc and Life Rebuilders, Inc, were awarded funds under the TEMAP portion of CDBG-CV. Both the Need a Break, Inc and Life Rebuilders, Inc contracts are currently closed. The remaining two sub-recipients, the City of Burnet and the Village of Timbercreek Canyon, are active contracts that are currently constructing a children's advocacy center and a senior center, respectively, to serve at-risk populations within those areas. These funds were awarded under the CRP portion of the CDBG-CV program.

Testing consisted of the following: reconciling all individual contract awards with the overall HUD CDBG-CV award monies; detailed review of contract language compared to actual expectations outlined to sub-recipients by the division; verifying that all single audits have been conducted according to code expectations; comparing contract deadlines to actual construction progress of facilities; and review of complaints received by TDHCA regarding specific CDBG-CV sub-recipients.

The auditor identified that completion of single audits is not required to be tracked by the CDBG-CV team. However, upon initial cursory review of all sub-recipients, it was found that a small percentage of audits were tardy. A recommendation regarding this observation is listed below.

It was also discovered that some contracts contained standard language that did not apply to specific sub-recipient expectations. This oversight appears to have occurred due the quick response required by the program to administer aid to Texans impacted by COVID-19. Upon further inspection, the contracts that included the standard language appear to have concluded with no further issues. As a result, no recommendation was issued. The remaining active contracts appear to contain language that was vetted by the TDHCA legal team and a TDA consultant to accurately reflect deliverables expected from sub-recipients.

The CDBG-CV division has also disclosed that both the City of Burnet and Village of Timbercreek Canyon have experienced several month delays in contract execution. Despite initial hindrances, the City of Burnet has begun construction on the proposed children’s advocacy center. The Village of Timbercreek Canyon, however, has yet to receive actionable bids for the senior center project under current contract stipulations. The CDBG-CV division is aware of the difficulty and appears to be actively working with the sub-recipient to address concerns. Although no actionable recommendations appear necessary, the auditor does want to note potential risk to TDHCA of lapsing past the 2026 deadline for expenditure of all CDBG-CV funds if delays continue.

The auditor would like to note that the CDBG-CV team appear to have done a great job pivoting overall to serve the needs of at-risk Texans during a very turbulent time in U.S. history. The auditor believes the following recommendation will help the CDBG-CV division run the program more effectively and protect it from risk.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
23-005.01	IA recommends that the CDBG-CARES Division ensures that all sub-recipients are up-to-date on required Audit Certification Forms (ACF) and Single Audits throughout contract duration. The CDBG-CARES Division should work closely with the Sub-recipient Monitoring Division to track ACFs and, if applicable, Single Audits.	Completed (September 30, 2023)	Rudy Bentancourt, Director of CDBG

Management Response:

The CDBG-CARES Division will assist the Sub-recipient Monitoring Division to ensure all current sub-recipient Single Audits are up-to-date throughout the contract duration. The CDBG CARES Division has implemented a process to request and receive Audit Certification Forms no more than 60 days after the completion of the sub-recipient’s fiscal year end date and Single Audits (if required) no more than 9 months after the completion of the sub-recipient’s fiscal year. The CDBG CARES Division will ensure the Sub-recipient Monitoring Division receives all Audit Certification Forms and Single Audits submitted by the sub-recipients. The CDBG CARES Division will also ensure the sub-recipient enters the Single Audit into the Federal Clearinghouse on an annual basis. The CDBG CARES Division has created a logging mechanism to keep track of Audit Certification Form and Single Audit (if required) notifications and will send notifications on an annual basis throughout the contract duration.

2) CDBG-CSHC

Testing for the CDBG-CSHC program consisted of a cursory review of all contracts issued within the past 3 years. Of the 9 sub-recipients identified, the Hidalgo and Webb county contracts were

chosen through scientific sampling for more detailed testing. Testing included the following: review of fulfillment of the citizen participation clause within the contracts, analysis of supporting documentation provided to support quarterly progress reports supplied by the sub-recipients, check of processes regarding home rehabilitation within the selected counties, inspection of single audits, and a reconciliation of sub-recipient awarded funds with overall funds awarded TDHCA for distribution. It appears the CDBG-CSHC program is operating effectively in providing services to the colonias. The auditor has no further recommendations.

OIA extends our appreciation to both CDBG-CARES and CDBG-CSHC program management and staff for their cooperation and assistance during the course of this audit. The auditor would like to note that all staff were diligent and polite in answering questions and providing paperwork when requested.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director

MS/MM