

**OFFICE OF THE CITY CONTROLLER**



**HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT**

**FINANCIAL RELATED AUDIT OF  
FEDERAL GRANT ADMINISTRATION**

**Judy Gray Johnson, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

JUDY GRAY JOHNSON, CPA

May 23, 2003

The Honorable Lee P. Brown, Mayor  
City of Houston, Texas

SUBJECT: Housing and Community Development Department  
Financial Related Audit of Federal Grant Administration (Report No. 02-20)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a Financial Related Audit of Federal Grant Administration at the Housing and Community Development Department (Department). The primary objectives of the audit were to determine whether the Department's processes and internal controls (1) are adequate to ensure the selection of responsible subrecipients; (2) ensure it is complying with its responsibilities as a pass-through entity of monitoring activities of its subrecipients as necessary to ensure Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or subrecipient agreements and (3) are adequate for fraud prevention and detection.

The report, attached for your review, concluded that the Department's processes and internal controls are adequate as they relate to the subrecipient selection process. However, we identified internal control compliance issues, as well as weaknesses, with the Department's responsibilities as a pass-through entity in the areas of monitoring the activities of its subrecipients, and fraud prevention and detection. Draft copies of the matters contained in the report were provided to appropriate Department officials. The views of the responsible Department officials as to actions taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Department personnel during the audit.

Respectfully submitted,

Judy Gray Johnson  
City Controller

xc: City Council Members  
Albert Haines, Chief Administrative Officer  
Stephen O. Tinnermon, Chief of Staff, Mayor's Office  
Daisy Stiner, Director, Housing and Community Development Department  
Philip Scheps, Ph.D., Director, Finance and Administration Department

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## EXECUTIVE SUMMARY

- Our examination of reimbursement requests and discussions with project managers revealed that reimbursement requests, in some cases, are not adequately verified before being approved for payment.
- The Monitoring and Evaluation (M&E) Section does not use a formal risk assessment process to prioritize monitoring projects. This could result in monitoring lower rather than higher risk projects.
- The M&E Section has written Procedures and Guidelines to assist monitors in completing reviews. The Procedures and Guidelines require monitors to follow, initial and date a monitoring program that lists the steps monitors are to perform during a review. They also require documenting the resolution of findings noted during the review. Initialing and dating the monitoring program is significant because it affixes responsibility as to who performed the work, and it adds perspective as to when the work was completed. Sample audit testing revealed noncompliance with monitoring Procedures and Guidelines.
- The M&E Section has written Procedures and Guidelines to assist monitors in completing reviews. The Procedures and Guidelines do not address organizational standards such as numbering and referencing, or quality issues such as documenting purpose statements and conclusions. Ideally, monitors should organize files so that each step listed in the monitoring program is correlated to the work performed, and the monitors should clearly document the purpose of the work performed, the conclusions reached and ownership of the conclusions.
- None of the files we examined contained monitoring programs with review steps that addressed program quality. In fact, monitoring staff informed the audit team that their reviews focus on compliance issues, and that quality issues are not considered. For example, if a program includes substance abuse counseling services, monitors do not test to ensure that counselors hold and maintain professional licenses such as Licensed Chemical Dependency Counselor (LCDC) or Certified Alcohol and Other Drug Abuse Counselor (CADAC).
- The Housing and Community Development Department (HCDD) does not have a written fraud policy related to grant administration, nor are subrecipients required by grant agreements to post a written fraud policy in the workplace. The absence of a posted fraud policy could encourage employees to commit fraud who would not normally do so, since management is setting the tone that fraud prevention and detection is not a priority. This indicates to employees that the risk of discipline, dismissal, and even prosecution is minimal.

## SCOPE AND PURPOSE

We have completed a financial related audit of the Housing and Community Development Department (HCDD). The scope of the audit consisted of reviewing regulations, subrecipient agreements, application documents, monitoring files, and documents supporting financial activities related to grants for the period April 1, 2001 through March 31, 2002. The primary objectives of the audit were as follows:

- Determining whether the HCDD's processes and internal controls are adequate to ensure the selection of responsible subrecipients.
- Determining whether the HCDD's processes and internal controls ensure it is complying with its responsibilities as a pass-through entity of monitoring activities of its subrecipients as necessary to ensure Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or subrecipient agreements and that performance goals are achieved.
- Ascertaining whether the HCDD's processes and internal controls are adequate for fraud prevention and detection.

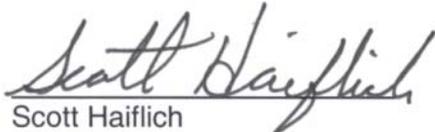
The scope of our work did not constitute an evaluation of the overall internal control structure of the HCDD. Our examination was designed to evaluate and test the adequacy of the HCDD's processes and controls noted above. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

HCDD's management is responsible for establishing and maintaining a system of internal controls to ensure compliance with federal regulations and to ensure that grant funds are used for their intended purpose. The objective of an internal control system is to provide management with reasonable, but not absolute, assurance of compliance with federal regulations and that grant funds are used for their intended purpose.

Due to the inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

## CONCLUSION

Based on the results of the audit, we conclude that HCDD's processes and internal controls are adequate as they relate to the subrecipient selection process. However, we identified internal control compliance issues, as well as weaknesses, with HCDD's responsibilities as a pass-through entity in the areas of monitoring the activities of its subrecipients, and fraud prevention and detection. The internal control compliance issues and weaknesses are addressed as findings in the body of the report.

  
Scott Haiflich  
Auditor-in-charge

  
Ken Teer  
Audit Manager

  
Steve Schoonover  
City Auditor

## INTRODUCTION

The Housing and Community Development Department's (HCDD) mission is "to provide leadership in the preservation, revitalization and improvement of Houston's low and moderate income neighborhoods by: (1) expanding the supply of safe, quality, affordable housing; (2) improving the infrastructure; (3) providing financial inducement to encourage economic development and (4) by providing the social and other supportive services necessary for viable neighborhoods. To maximize our results, we will leverage our personal, financial and other resources by combining our funds and efforts with those from public, private and non-profit sectors for the benefit of the citizens of Houston."

The HCDD receives Federal funds for a variety of projects. Principally, the funds are used to assist the low and moderate-income citizens of Houston. Numerous regulations and guidelines must be followed in order to receive these funds. Failure to comply with the regulations could invoke Housing and Urban Development (HUD) administrative sanctions, such as debarment, suspension or limited denials of participation in Federally funded programs. The Federal funding sources and amounts for the City of Houston, according to HCDD's 2001 Consolidated Annual Plan (for the fiscal year ending June 30, 2002), are as follows:

FUNDING SOURCE	Amount	Percent
1) Community Development Block Grants (CDBG)	\$36,421,000	66%
2) Emergency Shelter Grants (ESG)	1,234,000	2%
3) Home Partnership Investment Program (HOME)	13,190,000	24%
4) Housing Opportunities for Persons with AIDS (HOPWA)	4,393,000	8%
TOTAL	\$55,238,000	100%

The auditors referred to the following regulations and guidelines while conducting this audit:

Designation	Title
24 CFR 85 (1999)	Administrative Requirements for Grant and Cooperative Agreements To State, Local and Federally Recognized Tribal Governments
24 CFR 84	Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
OMB Circular A-87	Cost Principles for State, Local, and Indian Governments
OMB Circular A-122	Cost Principles for Nonprofit Organizations
OMB Circular A-123	Management Accounting and Controls
OMB Circular A-133	Audits of State, Local Governments and Nonprofit Organizations

## AUDIT FINDINGS AND RECOMMENDATIONS

### INTRODUCTION TO AUDIT FINDINGS AND RECOMMENDATIONS

Issues presented in an internal audit report are typically referred to as findings. It has been the practice of the Audit Division of the Office of the City Controller to use the term finding when preparing audit reports. However, the U.S. Department of Housing and Urban Development (HUD), in their *Community Planning and Development Monitoring Handbook*, defines monitoring issues as follows:

“Finding. A deficiency in program performance based on a statutory or regulatory requirement for which sanctions or other corrective actions are authorized. Such sanctions or actions may be subject to HUD discretion”

“Concern. A deficiency in program performance which is not based on a statutory or regulatory requirement. While sanctions or corrective actions are not authorized for concerns, HUD may call the concern to the grantee’s attention and, where appropriate, may recommend actions to address concerns and/or provide technical assistance.”

The City’s Housing and Community Development Department (HCDD), as a grantee (or recipient) being monitored periodically by HUD, is accustomed to the terms finding and concern as defined by HUD. Therefore, we feel it is necessary to clarify here that the term finding, as used in this audit report, does not indicate a statutory or regulatory deficiency. HUD monitors would have to determine for themselves if the audit findings presented in this report fall into the category of an issue that would authorize HUD sanctions or other corrective actions.

### I. REQUEST FOR REIMBURSEMENT PROCESSING

#### BACKGROUND

Subrecipients typically request reimbursement of expenses incurred. The terms of grant agreements dictate the frequency of reimbursement requests, the documents necessary to support the requests and what expenses are allowable.

HCDD project managers review the reimbursement requests. The project manager is responsible for assuring that the expenses are allowable and that the request is adequately supported and correct.

#### FINDING

Our examination of reimbursement requests and discussions with project managers revealed that reimbursement requests, in some cases, are not adequately verified before being approved for payment. Specifically, discussion with two project managers resulted in the following:

- One project manager was not using support documents to verify the correctness of the reimbursement request. Reimbursement requests include supporting documents such as copies of vouchers, invoices, payroll ledgers and receipts. Often, only a portion of a supporting

document is applicable to a reimbursement request. The project manager indicated they verify that the subrecipient has attached vendor invoices or receipts, and that the purchases are allowable under the terms of an agreement. However, the project manager does not determine the portion of each supporting document that is applicable to the reimbursement request, and agree the total of the portions to the amount requested for reimbursement.

- Another project manager indicated that he focuses on program activity and less on reimbursement requests. The project manager further indicated while he does not verify the correctness of reimbursement requests, he does review the support documents to determine whether the costs were reasonable and allowable.

Further, our examination of reimbursement requests revealed the following:

- In general, the reimbursement requests we examined did not include any evidence, other than approval signatures, that the expenses were allowable and that the supporting documents had been agreed to the reimbursement request.
- Often we found it difficult to determine the portion of each supporting document that is applicable to the reimbursement request. It was apparent that some subrecipients could, with minimal effort, submit reimbursement requests that would be much easier to verify.
- When project managers could not answer questions concerning expense reimbursements, the audit team met with the subrecipient's financial staff members and received adequate explanations as to how the documents supported the reimbursement requests.

It should be noted that our limited sample testing did not reveal any material losses. However, discussions with HCDD staff and audit testing did reveal what we consider to be significant control weaknesses.

## **RECOMMENDATION**

We recommend that HCDD management require documented ownership, such as a signature, that HCDD staff verified the reimbursement request for mathematical correctness before approval for payment. This may require HCDD staff meeting with subrecipient financial staff preparing requests for reimbursement to obtain an explanation as to how submitted documents support total amounts being requested.

We also recommend that HCDD management determine whether documents supporting reimbursement requests are adequate and can be reviewed within a reasonable time. If not, HCDD should require subrecipients to provide support that is more appropriate.

## II. RISK ASSESSMENT FOR ANNUAL MONITORING SCHEDULES

### BACKGROUND

The Code of Federal Regulations 24 (24 CFR), Section 85.40, *Monitoring and reporting program performance*, states that: “(a) *monitoring by grantees*. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.” “(b)(1) Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports.” Further, HOME funded grants must be monitored annually, and this may be satisfied with on-site or remote monitoring.

The HCDD as a policy monitors all of its grants and relies on project managers to remotely monitor the grants. Further, the HCDD relies on the Monitoring and Evaluation (M&E) Section to conduct on-site monitoring and issue monitoring reports on subrecipient programs, functions and activities. In addition to HCDD monitoring activities, HUD requires that all subrecipients receiving Federal grant funds in excess of \$300,000, be audited annually by external auditors.

Analysis of the Annual Monitoring Schedules, prepared by the M&E Section, and discussions with the M&E Administration Manager revealed that 23 of the 68 (34%) scheduled monitoring projects had been completed and reports issued for the period, April 1, 2001 through March 31, 2002. The following is a schedule reflecting the detail of the Annual Monitoring Schedule completion rate:

<b>MONITORING ACTIVITY FOR THE PERIOD APRIL 1, 2001 THROUGH MARCH 31, 2002</b>			
Type of Funds	No. of Contracts	No. of Reports Prepared	Annual Plan Completion Rates
CDBG – Subrecipient	13	7	54%
CDBG – Affordability	7	0	0%
HOPWA	29	14	48%
HOME	15	0	0%
HOME & CHDO *	4	2	50%
<b>Overall Completion Rate</b>	<b>68</b>	<b>23</b>	<b>34%</b>

\* HOME and CHDO are combined because the monitoring procedures for those four contracts require financial statement reviews.

### FINDING

The M&E Section does not use a formal risk assessment process to prioritize monitoring projects. This could result in monitoring lower rather than higher risk projects.

Since on-site monitoring is often more conclusive than remote monitoring, it is critical that the M&E Section allocate monitoring resources based on a risk assessment approach.

**RECOMMENDATION**

We recommend that the M&E Section's management implement a formal risk assessment process to prioritize its monitoring activities. Typically, risk assessment includes risk factors such as larger grants, new subrecipients, subrecipients with prior monitoring findings and concerns, etc.

**III. PROCEDURES AND GUIDELINES**

**A. COMPLIANCE WITH PROCEDURES AND GUIDELINES**

**FINDING**

The M&E Section has written Procedures and Guidelines to assist monitors in completing their reviews. The Procedures and Guidelines require monitors to follow, initial and date a monitoring program that lists the steps monitors are to perform during a review. They also require documenting the resolution of findings noted during the review. Initialing and dating the monitoring program is significant because it affixes responsibility as to who performed the work, and it adds perspective as to when the work was completed. The test results of our sample of nine monitoring review files are as follows:

- Four of the nine monitoring files (44%) did not contain a Monitoring Program which outlines specific review steps to be completed.
- Of the five files containing a Monitoring Program, the monitor(s) did not initial two of the programs to indicate what work was performed.
- One of nine files (11%) did not adequately document the resolution of findings that were cited in the corresponding monitoring reports.

**RECOMMENDATION**

We recommend that in the future, the M&E Section's management review each monitoring file and ensure that it is complete, programs are initialed and dated, and that all findings have been resolved.

## **B. WEAKNESSES IN PROCEDURES AND GUIDELINES**

### **FINDING**

The M&E Section has written Procedures and Guidelines to assist monitors in completing their reviews. The Procedures and Guidelines do not address organizational standards such as numbering and referencing or quality issues such as documenting purpose statements and conclusions. Ideally, monitors should organize files so that each step listed in monitoring programs are correlated to the work performed, and the monitors should clearly document the purpose of the work performed, the conclusions reached and ownership of the conclusions. The test results of our sample of nine monitoring review files are as follows:

- None of the nine monitoring files included numbered workpapers. Thus, even for the five files that contained monitoring programs, the programs could not be referenced to the work performed. As a result, it was extremely difficult to determine what work was performed and why it was performed for all nine files.
- None of the nine monitoring files contained workpapers with purpose statements or conclusions. These are necessary to explain the reason for the workpaper being included in the file, to document the results of work performed, and to affix ownership for the conclusions.
- None of the workpapers in the nine files reviewed were initialed and dated by the preparer or the manager of the M&E Section. Initials and dates are necessary to identify the monitor who prepared individual workpapers, and the dates on which those workpapers were prepared. Initials and dates by the manager of the M&E Section are necessary to document the management workpaper review process.
- Files were inconsistently organized in terms of the sections in which documents were placed. Each Project Monitor appeared to have their own method of organizing their files. This practice of inconsistent organization makes the files difficult to review.

### **RECOMMENDATION**

We recommend that the M&E Section's Procedures and Guidelines be expanded to include a section addressing workpaper standards. Standards should be developed to ensure that monitoring files are prepared and assembled in such a way that anyone reviewing the files can easily determine the monitoring program steps completed, the workpaper number corresponding to the program step, the preparer of each workpaper, the date each workpaper was prepared, the purpose for including the workpaper in the file, the purpose of testing or analysis performed, ownership for the conclusions drawn, and the resolution of any findings.

## **C. MONITORING SUBRECIPIENT PROGRAMS FOR QUALITY**

## **BACKGROUND**

Often the HCDD funds projects that require professional skills to provide the services. For example, the HOPWA Request for Proposal (RFP) required that proposers attach applicable copies of State and other licenses issued to the agency. The RFP also required that copies of professional licenses issued to agency staff, including nursing, Licensed Chemical Dependency Counselor (LCDC), and Certified Alcohol and Other Drug Abuse Counselor (CADAC) be provided. This indicates a concern for quality services being provided.

## **FINDING**

None of the nine files we examined contained monitoring programs with review steps that addressed program quality. In fact, monitoring staff informed the audit team that their reviews focus on compliance issues, and that quality issues are not considered. For example, if a program includes substance abuse counseling services, monitors do not test to ensure that counselors hold and maintain professional licenses such as LCDC or CADAC.

## **RECOMMENDATION**

We recommend that that the M&E Section's management develop program steps aimed at measuring the quality of services provided to clients. For example, monitoring steps should include verification that persons providing counseling services or teaching classes hold and maintain appropriate licenses and certifications where applicable.

## **IV. FRAUD POLICY**

### **BACKGROUND**

Occupational fraud and abuse is a widespread and ever-increasing problem that affects practically every organization, regardless of size, location, or industry. This applies to the government sector, as well. The Association of Certified Fraud Examiners (ACFE), in its *2002 Report to the Nation*, estimated that six percent of revenues would be lost in 2002 as a result of fraud and abuse. That percentage applied to the U.S. Gross Domestic Product translates to losses of approximately \$600 billion, or about \$4,500 per employee. It is generally accepted that fraud deterrence is most effective when management creates an environment in which employees are aware of management's position on fraud prevention. Fraud policies can be an effective method of fraud deterrence, provided employees perceive a real risk of detection and have knowledge of the resulting consequences.

### **FINDING**

HCDD does not have a written fraud policy related to grant administration and does not require subrecipients to have a written fraud policy. The absence of a fraud policy could encourage employees to commit fraud who would not normally do so, since management is

setting the tone that fraud prevention and detection is not a priority. This indicates to employees that the risk of discipline, dismissal, and even prosecution is minimal.

#### **RECOMMENDATION**

We recommend that HCDD management discuss with the Mayor's Office the need for development of a written city-wide fraud policy, with a section devoted to grant administration. We suggest that the City use the *Guidelines for Public Housing Authorities to Prevent, Detect and Report Fraud*, a publication prepared by the U.S. Department of Housing and Urban Development, as a guide in developing fraud policies related to grant administration. The policy should be provided to each individual employee, and each employee should be required to sign and date a document stating that they received, read, and understand the fraud policy. Additionally, the policy should be posted in places where it can be read by all City staff.

We also recommend that grant agreements require subreipients to have a written fraud policy. The agreements should reference the City Controller's Office fraud hotline telephone number (713) 437-6254, and website (<http://www.ci.houston.tx.us/electedofficials/citycontroller.html>), as methods of reporting fraud allegations.

# EXHIBIT I



## CITY OF HOUSTON

Housing & Community Development  
Department

## Interoffice

Correspondence

To: Judy Gray Johnson  
Controller



From: Daisy A. Stiner, Director

Date: May 1, 2003

Subject: Management's Response to  
Draft Audit Report

The Housing and Community Development Department (HCDD) would like to compliment the auditors on the thoroughness of their review. We are also pleased to acknowledge their conclusion that HCDD's processes and internal controls related to the grantee selection process – the initial and primary focus of this special audit – were found to be acceptable, and with no exceptions. The extraneous findings which were noted are addressed individually, below. Our general view is that most, if not all, do not rise to the level of "findings" as the U.S. Department of Housing and Urban Development (HUD) would describe them. Certainly, no HUD standards or regulations were violated, and no monetary measures of materiality apply, since no dollar losses were attached. The issues and related recommendations seem more in the nature of management comments, or suggestions for improved controls and procedures.

As acknowledged by the Controller's auditors in the introduction of the report, the City is governed by the federal grant regulations cited, with the exception of OMB Circular A-123, Management and Accountability Control. This OMB Circular is promulgated to provide guidance to offices of the Executive Branch of the federal government and not state and local governments or nonprofit organizations. The fiscal and administrative guidelines intended for these entities are incorporated in the OMB circulars identified.

HCDD's management response to the draft Audit Report follows below. The numbering of the responses correlates to those in the Audit Report.

### I. Request for Reimbursement Processing

Requests for reimbursement are reviewed by not only the project managers, but also by the payables accountants, their supervisors, and ultimately the Controller's accountants. All see copies of the backup documentation. The payables accountants, though sharing responsibility with the project managers, normally do most of the financial, mathematical and cost allocation verification, because of their access to the City's Financial Management System, and their familiarity with accounting in general. Their signature, which appears on all reimbursement requests, connotes the backup documents' agreement with the invoice/request. It is true that some subrecipient documentation is more difficult to tie to their reimbursement requests, because of cost allocation factors. Our project managers and payables accountants will do additional training for subrecipients where necessary, to ensure that their reimbursement requests are accurate and readily verifiable. The Department considered your recommendation, reviewed our

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payables procedures and made appropriate changes where necessary. We provided payables staff with a training session on April 10, 2003 to update them on the revised procedures.

## II. Risk Assessment for Annual Monitoring Schedules

Each year, a monitoring schedule is developed that incorporates all potential projects to be monitored. Although the majority of projects do not require annual on-site monitoring, the Department realizes that managing federal grants is complex and can be difficult. On-site monitoring of projects guarantees that projects are being managed properly and provides an opportunity for the Department to provide technical assistance and help resolve problems and issues experienced by the subrecipient.

Short of formalizing such procedures into written form, the Monitoring & Evaluation Section conducts risk assessment to prioritize projects to be monitored. Higher priority is given to those projects in which active funding continues to be provided. This includes those projects that are receiving larger amounts of funding, as well as to those projects that do not have established history with federal funding requirements or those projects that have been identified with findings or concerns during previous monitoring visits.

Only one of the Department's programs requires **annual** monitoring of funded projects. The HOME Program, under the regulations found at 24 CFR §92.504(d)(1), requires annual on-site inspections of multi-family properties for compliance with property standards (Housing Quality Standards) at §92.251 and affordability requirements at §92.252. The Department conducts annual inspections of these properties to ensure compliance with the property standards and requires providers of affordable housing to submit monthly reports, which assists the Department in determining compliance with §92.252. This form of monitoring is called remote monitoring and is an accepted practice by HUD.

The Department, however, will formalize its risk assessment procedures into a written form, and plan for implementation on or around July 1, 2003.

## III. Procedures and Guidelines

### A. Compliance with Procedures and Guidelines

With regards to summary sheets being initialed and dated, some of the monitoring files examined by the auditors were still in the follow-up status. Monitoring staff was continuing to work with the agencies in the resolution of their findings or concerns during the period when the audit team had possession of the monitoring files. The Department will endeavor to ensure that all project summary sheets are initialed and dated during the course of the reviews. The Department also recognizes that the summary sheet may be obsolete, and as such, will review its contents to determine if it requires updating.

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## B. Weaknesses in Procedures and Guidelines

The Department has developed its monitoring guidelines based on a document titled *A Guidebook for Grantees on Subrecipient Oversight / Managing CDBG*. These guidelines state that monitoring files be documented to support the conclusion of compliance or non-compliance with statutory or contractual requirements. Unlike auditing, which is governed by standardized procedures for financial accountability, the Department must monitor a variety of federal programs, each with its own set of federal statutory, regulatory and performance requirements. The Department's monitoring function has followed the guidance provided by HUD with respect to monitoring documentation. As a result of its funding sources, the Housing and Community Development Department is annually reviewed by the City's Single Auditor and by HUD, in various forms.

Neither of these reviewing entities has indicated to the Department that its monitoring project file system required improvement. The recommendation suggested by the auditors regarding workpaper standardization appear more appropriate to certified audit files and single audit reports rather than to monitoring files and reports. The Department will, however, re-evaluate its current procedures and incorporate the Controller's recommendations where feasible.

## C. Monitoring Subrecipient Programs for Quality

HUD requires that project monitoring be conducted to ensure compliance with statutory and contractual requirements of subrecipients, Community Housing Development Organizations (CHDOs), project sponsors and developers of affordable housing projects. The Department's primary mandate from HUD is to provide affordable housing, economic development and community development activities such as infrastructure improvements and neighborhood facility development. A small portion of the funding can be used for the provision of social services. In order to ensure that quality social services are being provided to clients, the Department requires during the application process that subrecipients submit licenses and other certifications that a social service will be provided by qualified individuals. At the program level, the Department consults with professional associations and experts in social services to guarantee that the services provided by the subrecipient agencies are of a high level and are being provided by qualified individuals. The Department will, however, revise its monitoring procedures so that, when on-site, a check can be made to determine that licenses and certifications held by staff are current, since there is a lapse in time from application for funding and the on-site monitoring of the project.

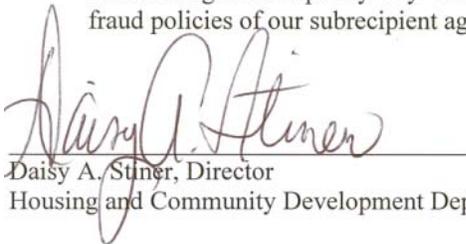
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### **IV. Fraud Policy**

The City of Houston has no general, written fraud policy for all departments. The Administration has not requested that our Department develop such an independent policy of its own. HUD's "Guidelines for Public Housing Authorities to Prevent, Detect and Report Fraud," cited in the audit report, is specifically applicable to Public Housing Authorities, which HCDD is not. No federal guidelines require such a written policy. Nevertheless, we will request that the Administration study the question, with the goal of establishing such a policy city-wide. We will also explore the feasibility of requiring fraud policies of our subrecipient agencies.

  
\_\_\_\_\_  
Daisy A. Stiner, Director  
Housing and Community Development Department

DAS:MFQ:hb

cc: Susan Bandy, Assistant Director; Finance and Administration Department

**Views of Responsible  
Officials**