



# Harris County Community Services Department, Houston, TX

## Community Development Block Grant

**Office of Audit, Region 6  
Fort Worth, TX**

**Audit Report Number: 2016-FW-1008  
September 27, 2016**





**To:** Sandra H. Warren, CPD Director, Houston Field Office, 6ED

*//signed//*

**From:** Tracey Carney, Acting Regional Inspector General for Audit, 6AGA

**Subject:** The Harris County Community Services Department Needs to Improve Procurement and Subrecipient Oversight in Its CDBG Program Activities

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Community Services Department of Harris County's Community Development Block Grant (CDBG) program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



**Audit Report Number: 2016-FW-1008**

**Date: September 27, 2016**

**The Harris County Community Services Department Needs to Improve Procurement and Subrecipient Oversight in Its CDBG Program Activities**

## Highlights

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### What We Audited and Why

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We audited the Harris County Community Services Department's Community Development Block Grant (CDBG) program based on our risk analysis and as part of our annual audit plan to review community planning and development funds. The audit objective was to determine whether the Department properly administered and adequately documented its CDBG program activities in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and spent CDBG funds for eligible activities.

### What We Found

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In general, the Department properly administered and adequately documented its CDBG program activities in accordance with HUD regulations and spent CDBG funds for eligible activities. However, there were instances of noncompliance with procurement regulations and inadequate subrecipient oversight. Specifically, the Department did not (1) include required procurement language in its contracts, (2) include required eligibility restrictions in its subrecipient agreements, and (3) update its prequalified list of contractors. These conditions occurred because the Department was unaware of some requirements, believed other requirements were unnecessary, and was satisfied with its list of contractors. The Department agreed to correct the deficiencies as we identified them.

### What We Recommend

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We recommend that the Director of the Houston Office of Community Planning and Development require the Department to confirm that it has implemented procedures to ensure that its future contracts and subrecipient agreements address the procurement and eligibility issues identified in this report.

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# Background and Objective

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The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974, Public Law 93-383 as amended, 42 United States Code 5301. Under the CDBG program, the U.S. Department of Housing and Urban Development (HUD) awards grants to State and local governments to aid in the development of viable urban communities. Recipients are required to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. In addition, each CDBG-funded activity must meet one or more of the following three national objectives:

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

Harris County is a political subdivision of the State of Texas, and the Commissioners Court is the governing body of the County. The Community Services Department of Harris County is a division within the County located at 8410 Lantern Point Drive, Houston, TX. The Department receives funds through formula grants issued by HUD. Between 2013 and 2015 the Department received the following CDBG funding:

<b>Program year</b>	<b>CDBG allocation amount</b>
2013	\$11,799,679
2014	11,844,232
2015	11,932,841
<b>Total funding</b>	<b>35,576,752</b>

The Department receives funds to cover all of unincorporated Harris County in addition to 14 smaller cities within the County that agree to allow services within their jurisdictions. There are four entitlement jurisdictions within Harris County that receive HUD funds: Harris County and the Cities of Houston, Pasadena, and Baytown.

The objective of the audit was to determine whether the Department properly administered and adequately documented its CDBG program activities in accordance with HUD regulations and spent CDBG funds for eligible activities.

# Results of Audit

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## **Finding 1: The Harris County Department of Community Services Needs to Improve Its Compliance With Procurement Regulations and Subrecipient Oversight**

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Although the Harris County Community Services Department generally administered and documented its CDBG program activities in accordance with HUD regulations and spent CDBG funds for eligible activities, it did not (1) include required procurement language in its contracts, (2) include required eligibility restrictions in its subrecipient agreements, and (3) update its prequalified list of contractors. These conditions occurred because the Department was unaware of the required procurement language and eligibility restrictions, believed some requirements to be unnecessary, and its procurement staff was satisfied with an old list of contractors. Although the audit did not identify any effects from lack of compliance with procurement requirements and with inadequate subrecipient oversight, or any consequences of not updating the pre-qualified list of contractors, continued deficiencies could result in an ineligible use of Federal funds. The Department agreed to correct all deficiencies as we identified them.

### **Contracts Did Not Include Required Language**

The Department did not include energy efficiency and access and retention of records language in its contracts as required by 24 CFR (Code of Federal Regulations) 85.36(i)11 and 13. Of the 22 contracts reviewed, 21 did not contain the required language. These conditions occurred because the Department believed the language to be unnecessary since the contractors were not grantees or subgrantees. Since the Department did not comply with the requirements, it could be liable for any energy efficiency or record retention violations. The Department agreed that it would add this language to future contracts, but we could not confirm that it had done so because there were no recent contracts to review.

### **Subrecipient Agreements Did Not Address Eligibility Restrictions**

All five of the Department's subrecipient agreements reviewed failed to address eligibility restrictions for some resident aliens as required by 24 CFR 570.613. While the Department had a non-U.S. citizen's policy, it was unaware that the resident alien restriction criteria applied. As a result, it could have assisted ineligible applicants. The Department agreed to amend its policy and contract forms to include the eligibility restrictions in all future subrecipient agreements, but we could not confirm that it had done so because there were no recent agreements to review.

### **The Prequalified List of Contractors Was Not Updated**

The Department did not update its prequalified list of contractors between 2013 and 2015 as required by 24 CFR 85.36(c)4. The Department stated that it did not update the list because its procurement staff was overburdened with the Hurricane Ike Disaster Recovery Program and its procurement department was satisfied with an old list of contractors. However, there was open competition because the Department advertised for all bid requests. The Department updated the list for 2016 and provided a copy to us.

## **Conclusion**

The Department did not (1) include required language in its contracts, (2) address some eligibility restrictions in its subrecipient agreements, and (3) update its prequalified list of contractors between 2013 and 2015 because it was unaware of required procurement language and restrictions, believed some requirements to be unnecessary, and it was satisfied with its old list of contractors. Although the audit did not identify any effects of these deficiencies, continued procurement and subrecipient oversight deficiencies could result in an ineligible use of Federal funds. The Department stated that it would correct the issues identified in the report. However, we were unable to determine whether it had implemented the corrective actions because we did not review additional contracts and subrecipient agreements after the audit period.

## **Recommendations**

We recommend that the Director of the Houston Office of Community Planning and Development require the Harris County Department of Community Services to

- 1A. Confirm that it has implemented procedures to ensure that its future contracts contain the energy efficiency and access and retention of records language required by 24 CFR 85.36(i)11 and 13.
- 1B. Confirm that it has implemented procedures to ensure that its future subrecipient agreements address eligibility restrictions required by 24 CFR 570.613.

# Scope and Methodology

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We conducted our audit at the Harris County Community Services Department and the HUD Office of Inspector General's (OIG) office in Houston, TX, between February and June 2016. Our audit scope generally covered the Department's CDBG program for the period January 1, 2013, through December 31, 2015. We expanded the scope as necessary to accomplish our audit objective.

To accomplish our objective, we reviewed

- Relevant laws, regulations, and program guidance.
- The Department's organizational structure and written policies for the program.
- The Department's audit and HUD monitoring reports.
- The Department's grant agreements and action plans.
- The Department's subrecipient agreements and monitoring documentation.
- Expenditure and project reports from HUD's Integrated Disbursement and Information System (IDIS).<sup>1</sup>
- The Department's files for the sampled CDBG-funded projects to determine whether program national objectives were adequately documented.
- The Department's files for the sampled CDBG-funded procurements to determine whether the Department complied with Federal procurement rules and regulations.
- The Department's administrative expenditures to determine whether the expenditures exceeded a 20 percent threshold<sup>2</sup> and the funds were used for allowable purposes.

We also interviewed the Department's staff and subrecipients.

From a universe of 100 projects administered between January 1, 2013, and December 31, 2015, we selected for review a nonstatistical sample of 5 projects based on the following qualifications: (1) multiple funding years, (2) services in which two or more vendors provide the same type of service, (3) lead-based removal or home repair services, and (4) high dollar amount. We reviewed the Department's file documentation for the five sampled projects to determine whether the Department maintained documentation to support its basis for meeting one or more of the three program national objectives and subrecipient oversight. We compared HUD's IDIS data to the Department's data but did not perform a complete assessment of computer-processed data regarding the national objective review because we did not rely on computer data to develop

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<sup>1</sup> IDIS is the drawdown and accomplishment reporting system for CDBG grantees. IDIS also provides HUD with current information regarding CDBG and other activities underway across the nation. HUD uses this information to report to Congress and to monitor grantees.

<sup>2</sup> 24 CFR 570.200(g) limits the amount of yearly CDBG funds obligated for planning and administration to 20 percent of its entitlement grant made for that year plus any program income.



our conclusions. The test results are limited to the 5 projects reviewed and cannot be projected to the universe of 100 projects.

From a universe of 135 contracts procured between January 1, 2013, and December 31, 2015, we selected for review a random, nonstatistical sample of 22 contracts totaling \$1.9 million.<sup>3</sup> We selected a random sample of 17 contracts valued at \$50,000 or less from a list of 85 contracts provided by the Department, while ensuring that we had at least one contract from each of the program years (2013-2015). We selected 5 additional contracts, every 10<sup>th</sup> contract from a list of 50 contracts, valued at \$50,000 or more provided by the Department. We reviewed the Department's and Harris County's file documentation for the 22 sampled contract files to determine whether they were procured in accordance with Federal regulations. We did not assess computer-processed data for the procurement review because we did not rely on computer data to develop our conclusions. The test results are limited to the 22 contracts reviewed and cannot be projected to the 135 contract universe.

From a universe of 1,283 Department drawdowns<sup>4</sup> in IDIS between January 1, 2013, and December 31, 2015, we extracted all drawdowns that were more than \$100,000 and selected a nonstatistical sample of 7 drawdowns with expenditures totaling \$2.9 million. We selected the oldest drawdown on the list, the highest dollar amount, and then every seventh drawdown for the last five drawdowns. We reviewed the drawdowns to determine whether they were reasonable, eligible, and adequately supported. We determined that the IDIS data were reliable for our test purposes, but our reliability assessment was limited to the data reviewed and reconciled to the Department's data. The test results are limited to the 7 drawdowns reviewed and cannot be projected to the 1,283 drawdown universe.

We compared administrative expenditure data, covering program years 2013 through 2015, from IDIS with the total grant amount and determined that costs did not exceed the 20 percent limit.

We conducted the audit in accordance with generally accepted government auditing standards. 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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>3</sup> We pulled the sample from two listings. The Harris County purchasing agent procured all goods and services for the Department when the total of those goods and services exceeded \$50,000. The Department procured goods and services for itself when the total of those goods and services was at or less than \$50,000.

<sup>4</sup> The drawdowns were for expenses the Department incurred and were done on a reimbursable basis.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations-Policies and procedures implemented by the Department to ensure that it effectively administered its CDBG program activities, including meeting program national objectives and procuring necessary contracts.
- Effectiveness and efficiency of operations-Policies and procedures implemented by the Department to ensure that it used its CDBG grant funds efficiently, including ensuring that such use of funds was reasonable and necessary with respect to subrecipient and contractor payments and administrative expenditures.
- Compliance with applicable laws and regulations-Policies and procedures implemented by the Department to ensure that it administered and adequately documented its CDBG program activities in compliance with HUD requirements regarding program national objectives, procurements, and administrative expenditures.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control as a whole.


# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments



**HARRIS COUNTY, TEXAS**  
COMMUNITY SERVICES DEPARTMENT

**Office of Housing & Community Development**  
8410 Lantern Point Drive  
Houston, Texas 77054  
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David B. Turkel  
*Director*  
Daphne Lemelle  
*Community Development Director*

September 14, 2016

Ms. Tracey Carney  
Acting Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of the Inspector General  
819 Taylor Street, Suite 13A09  
Fort Worth, TX 76102

Dear Ms. Carney:

SUBJECT: Harris County Community Services Department Draft Audit Report

This letter is in response to the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG) draft audit report for the Harris County Community Development Block Grant (CDBG) program.

The Harris County Community Services Department (HCCSD) generally agrees with the OIG's report but would like to comment on the one finding:

**Finding 1: The Harris County Department of Community Services Needs to Improve Its Compliance with Procurement Regulations and Subrecipient Oversight:**

a) *Contracts Did Not Include Required Language 24 CFR 85.36(f) 11 and 13— Access and retention of records and energy efficiency:*

**HCCSD response:** The HCCSD has amended its contract form to include the referenced required clauses. To date, sixteen (16) contracts with the added clauses have been executed since the June 30, 2016, and such contracts are available for review. Please note that the lack of the missing clauses in the prior agreements will not produce violations since it is HCCSD's standard practice and policy to retain all records for a minimum of five (5) years, and HCCSD has also maintained its affordable housing rehabilitation standards in compliance with the mandatory standards and policies for energy efficiency as maintained in the State of Texas Energy Conservation plan. Therefore, all contractors have been held to standards that require compliance with energy efficiency, and all projects have been inspected to such standards for work completed.

b) *Subrecipient Agreement Did Not Address Eligibility Restrictions:*

**HCCSD Response:** The HCCSD has notified all current CDBG public service subrecipients via a program notice regarding the referenced requirement related to

Comment 1

Comment 2

Comment 3

Comment 4

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 5

restrictions for some resident aliens as required by 24 CFR 570.613. The Subrecipient contract form is currently under review by the Harris County Attorney's Office (HCAO) for revision to add the required clause. In researching the applicable monitoring and compliance responsibilities for this clause, the HCAO has been unable to find the definition for "newly legalized alien as described at 24 CFR part 49" as noted in the regulation. It appears that 24 CFR 49 has been repealed, no longer funded, or consolidated into other programs; thus, HCCSD is requesting further guidance on the requirements of this section before the clause can be incorporated into the CDBG contracts.

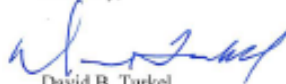
Comment 6

*c) Prequalified List of Contractors Was Not Updated*

**HCCSD Response:** HCCSD has recently revised its program guidelines (2016) and increased our management oversight to ensure more routine updates to our list of prequalified contractors. We will continue to update our list of prequalified contractors that participate in our Home Repair Program as required by 24 CFR 85.36(c) 4.

In closing, the HCCSD appreciates the professionalism showed to us by the OIG staff, and will work with the HUD's Houston Office of Community Planning and Development to close this finding. If you have questions, please call me or Daphne Lemelle at (713) 578-2001.

Sincerely,



David B. Turkel  
Director

DBT/dal

CC: Jacob L. Williams, Jr. (by electronic mail)

Signature\QA\DAL\HUD Letters\2016\HUD OIG Response Letter 9716.doc

Curry, page 2  
8/14/2016

## OIG Evaluation of Auditee Comments

Comment 1: The Department confirmed that it amended its contract form to ensure that it included the required access, retention of records, and energy efficiency clauses. The Department stated that it has issued 16 contracts with the required clauses since June 30, 2016, and that those contracts were available for review.

We appreciate the Department's efforts in correcting the issues identified in the report. We did not review contracts dated after June 30, 2016, and cannot conclude whether they contain the required clauses. The Department will need to provide the appropriate documentation to HUD during the audit resolution process to satisfy the recommendation.

Comment 2: The Department stated that missing access and record retention clauses in prior agreements would not result in violations because the Department's standard practice and policy was to retain all records for five years.

We disagree. The Department's standard practice and policy may ensure that it retains the necessary records; however, since the Department did not include the missing access and record retention clauses in prior agreements, it may have difficulty enforcing access and record retention standards with its contractors. Therefore, we stand by our original conclusion and recommendation.

Comment 3: The Department stated that the missing energy efficiency clauses in prior agreements would not result in violations because the Department maintained affordable housing rehabilitation standards in compliance with the mandatory State of Texas Energy Conservation Plan standards and policies for energy efficiency. It concluded that the contractors were held to energy efficiency standards and that the projects were inspected to such standards.

We did not verify whether the Department held contractors accountable for complying with the State energy efficiency standards or whether it inspected the projects to ensure that they met those standards. However, since the Department did not include the missing energy efficiency clauses in prior agreements, it may have difficulty enforcing the standards with its contractors. Therefore, we stand by our original conclusion and recommendation.

Comment 4: The Department stated that it notified the subrecipients of the resident alien restrictions.

We appreciate the Department's efforts to resolve the issues identified in the finding. However, the Department did not provide documentation to support its claim. The Department will need to provide the appropriate documentation to HUD during the audit resolution process to satisfy the recommendation.

Comment 5: The Department stated that the Harris County Attorney's Office has been unable to find a definition for the term "newly legalized alien."

We encourage the Department to work with HUD to obtain clarification on the requirement.

Comment 6: The Department stated it had revised its program guidelines and increased management oversight to ensure updates of its pre-qualified contractors.

We appreciate the Department's efforts to resolve the issues identified in the finding. However, the Department did not provide documentation to support its claim. The Department will need to provide the appropriate documentation to HUD during the audit resolution process to satisfy the recommendation.