

# U.S. Department of Housing and Urban Development Monitoring Report



## Community Development Block Grant Supplemental Disaster Recovery Funds

### **State of Texas General Land Office**

B-08-DI-48-0001	\$3,113,472,856
B-16-DL-48-0001	\$238,895,000
B-17-DM-48-0001	\$5,024,215,000
B-18-DP-48-0001	\$652,175,000

Monitoring Dates: November 4 – November 8, 2019

## OVERVIEW

Monitoring is the principal means by which HUD ensures program effectiveness and management efficiency, and that programs are carried out in compliance with applicable laws and regulations. It assists grantees in improving their performance, developing or increasing capacity and augmenting their management and technical skills. Also, it provides a method for staying abreast of CPD-administered programs and technical areas within the communities that HUD programs serve. Monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. In determining which grantees will be monitored, the Department uses a risk-based approach to rate grantees, programs and functions, including assessing the Department's exposure to fraud, waste and mismanagement. This process not only assists the Department in determining which grantees to monitor, but also identifies which programs and functions will be reviewed.

On November 4-November 8, 2019, HUD staff from HUD's Office of Community Planning and Development (CPD) conducted an on-site review of the State of Texas General Land Office's administration of its Community Development Block Grant disaster recovery (CDBG-DR) funds with a focus on the city of Houston as a subrecipient to the State for four CDBG-DR grants. The team specifically focused on review of subrecipient management, progress of several city of Houston programs, procurement and overall management to the State's disaster recovery programs dating back to 2008. Specific information relating to this review are as follows:

Date(s) Monitoring Conducted: November 4 – November 8, 2019

Type of Monitoring: On-site

HUD Reviewers: Phyllis Foulds, Ft. Worth DRSI Assistant Director  
Erinn Martin, CPD Specialist  
Hana Nelson, CPD Specialist  
William Bedford, CPD Specialist  
Terrance Ware, CPD Specialist  
Adriane Burgess, CPD Specialist  
Celeste Washington, CPD Specialist  
Christine Cuddeback, CPD Representative  
Makani Drummond, Attorney-Advisor

Grantee Staff and

Other Participants:

***Texas General Land Office – Community Development and Revitalization (CDR)***

Heather Lagrone, CDR Deputy Director

Martin Rivera, Deputy Director of Monitoring and Quality Assurance

Tracie Tolle, City of Houston Grant Manager

Doralicia Rivera, Harris County Grant Manager

***City of Houston - Housing and Community Development  
Department (HCDD)***

Tom McCasland, HCDD Director

Kennisha London, Administration Manager

Ray Miller, Multifamily, Economic Development and Public  
Facilities Assistant Director

Derek Sellers, Planning and Grant Management Assistant  
Director

Sharon Washington, Disaster Recovery and Public Services  
Deputy Assistant Director

Keith Bynum, Compliance and Operations Deputy Director

Ellen Eudy, Finance and Procurement Deputy Assistant  
Director

Sarah Labowitz, Policy and Communication Assistant  
Director

**SUMMARY OF RESULTS AND CONCLUSIONS**

The following areas were reviewed: Overall Management  
Subrecipient Management  
Procurement  
Hurricane Harvey - Homeowner Assistance Program  
Hurricane Ike/Dolly – Multifamily Rental Round 2 Projects

Exhibits from the *Community Planning and Development Monitoring Handbook* 6509.2 were used to guide the review. They are available at:

[https://www.hud.gov/program\\_offices/administration/hudclips/handbooks/cpd/6509.2](https://www.hud.gov/program_offices/administration/hudclips/handbooks/cpd/6509.2).

**SCOPE OF REVIEW**

The scope of the review included interviews with State of Texas General Land Office (GLO) and city of Houston staff and an examination of documentation to support the State's and city's determination of activity eligibility, overall program progress, and efficiency towards completing activities outlined in the HUD-approved CDBG-DR Action Plans. This section of the report summarizes the areas and program requirements reviewed.

**AREA REVIEWED AND RESULTS**

The monitoring review focused on GLO's overall management of open CDBG-DR grants along with program- and grant-specific administration of the following CDBG-DR grants (listed by grant number): B-08-DI-48-0001, B-16-DL-48-0001, B-17-DM-48-0001, and B-18-DP-48-0001. Although the State of Texas General Land Office is the grantee responsible for administering CDBG-DR funds, the scope of this HUD monitoring visit was informed by the State's method of distribution (MOD) and, therefore, routinely extends to local jurisdictions. This HUD monitoring review focused on the city of Houston as a subrecipient to the State for four active CDBG-DR grants, as mentioned above. Based on this monitoring review, it was determined that the State is providing adequate oversight to its subrecipients, including the city of Houston. However, HUD identified one Finding and six Concerns during the review, which are listed below under each of the

monitoring areas. The status of previous HUD monitoring Findings and Concerns can be found in the final section of this report. HUD also provided technical assistance during the monitoring visit as described below.

## **OVERALL MANAGEMENT**

HUD reviews overall management to ensure that the grantee establishes and maintains sufficient controls over its grant activities. The goals of grant management are listed below:

- To achieve disaster recovery and community development program goals;
- To efficiently and effectively manage the people and organizations carrying out grant activities; and
- To clearly document to HUD and to citizens how all funds will be, are, and were used.

Generally, the requirements for a State grantee are in the CDBG regulations at 24 CFR 570.480(c), 570.482(a), 570.483(b) and 570.489(d), and largely pertain to State program choices and documentation of compliance. However, the State of Texas, including applicable subrecipients, operates its CDBG-DR program under waivers that allow the State to act as if it were a CDBG entitlement community. Therefore, HUD referred to the disaster recovery monitoring standards of Handbook 6509.2 REV-7 CHG-2, Chapter 6. The waivers and alternative requirements published in applicable *Federal Register* Notices also introduce a requirement for internal audit and continuous quality assurance. HUD reviewed each of these elements as part of the overall management review.

CDBG-DR Monitoring Exhibit 6-1, Guide for Review of Disaster Recovery CDBG Supplemental Grants was used to guide this review. HUD interviewed: Heather Lagrone, Deputy Director; Martin Rivera, Deputy Director of Monitoring and Quality Assurance, Tracie Tolle, City of Houston Grant Manager, Kennisha London, City of Houston Administration Manager; and, Ellen Eudy, City of Houston Finance and Procurement Deputy Assistant Director.

## **Overall Grant Progress**

HUD reviewed the State's grant expenditures for its seven active/open CDBG-DR grants. HUD notes that the State has three additional CDBG-DR grant allocations forthcoming pending *Federal Register* Notices and/or execution of grant agreements. Table 1 details the budgets and expenditures of each of the State's grants as of this monitoring review. Table 2 details the budgets for the city of Houston's Hurricane Harvey programs, funded through a direct allocation from the State.

**Table 1: Snapshot of the State of Texas' Grants and Expenditures Progress**

Disaster(s)	Public Law(s)	Grant Number	Grant Amount	Grant Funds Disbursed	% Disbursed	Expenditure Deadline
Hurricanes Ike Other Events in 2008	P.L. 110-329	B-08-DI-48-0001	\$3,113,472,856	\$2,846,125,259	91%	N/A
2011 Multiple Disasters (Bastrop Wildfires)	P.L. 112-55	B-12-DT-48-0001	\$31,319,686	\$23,750,375	76%	N/A
Hurricane Joaquin and Patricia and Other Events in 2015	P.L. 114-113 P.L. 115-31	B-16-DH-48-0001	\$74,568,000	\$5,332,845	7%	4/5/2023
Louisiana, Texas, and Florida Floods and Other Events in 2016	P.L. 114-223 P.L. 114-254 P.L. 115-31	B-16-DL-48-0001	\$238,895,000	\$6,662,179	3%	11/1/2023
Hurricane Harvey #1	P.L. 115-31	B-17-DL-48-0002	\$57,800,000	\$2,929,245	5%	6/12/2024
Hurricane Harvey #2	P.L. 115-56	B-17-DM-48-0001	\$5,024,215,000	\$128,182,203	3%	8/17/2024
Hurricane Harvey #3	P.L. 115-123	B-18-DP-48-0001	\$652,175,000	\$0	0%	8/17/2024
<b>Total</b>			<b>\$9,192,445,542</b>	<b>\$3,012,982,106</b>	<b>33%</b>	
Mitigation Grant for 2015, 2016, and 2017 Disasters*	P.L. 115-123	B-18-DP-48-0002	\$4,297,189,000	--	--	--
2018 Floods*	P.L. 115-254	N/A	\$72,913,000	--	--	--
2019 Tropical Storms and Floods*	P.L. 115-254 P.L. 116-20	N/A	\$212,741,000	--	--	--
<b>Grand Total</b>			<b>\$13,775,288,542</b>	<b>\$3,012,982,106</b>	<b>22%</b>	--

*Disaster Recovery Grant Reporting (DRGR) system data as of November 5, 2019*

\* The total does not include the Mitigation Grant for 2015, 2016 and 2017 Disasters as HUD had not executed grant agreements for this award as of this monitoring review. Additionally, as of this monitoring review, HUD had not published the *Federal Register* Notices governing the 2018 and 2019 Floods grants. Therefore, the grant funds are not available to the State of Texas. The grand total grant awards for all CDBG-DR grants is \$13,775,288,542.

### *Hurricanes Ike and Other Events in 2008*

As of November 2019, the State's Hurricane Ike grant (B-08-DI-48-0001) was 91 percent drawn, with approximately \$2.8 billion of the \$3.1 billion in grant funds disbursed. According to the Disaster Recovery Grant Reporting (DRGR) system, GLO has disbursed over 70 percent of the funds to activities supporting low- to moderate-income (LMI) persons thus complying with the overall benefit requirement that at least 50 percent of the P.L. 110-329 grant allocation benefits LMI persons. GLO is currently working with the Galveston Housing Authority (GHA) to ensure affordable rental housing units are built in accordance with the conciliation agreements executed by HUD, GLO, and the Texas housing advocates. Construction of the remaining 287 units should mark the end of one of the largest remaining projects under this grant. GLO anticipates grant closure by 2024.

### *2011 Multiple Disasters (Bastrop Wildfires)*

The Bastrop Wildfire I grant (B-12-DT-48-0001) was 76 percent drawn as of November 2019, with approximately \$23.75 million of the \$31.9 million in grant funds disbursed. According to the DRGR system, GLO has disbursed over 67 percent of the funds to activities supporting LMI persons thus complying with the overall benefit requirement that at least 50

percent of the P.L. 112-55 grant allocation benefits LMI persons. GLO anticipates grant closure by the end of 2020.

#### *2015 Floods, 2016 Floods, and Hurricane Harvey 2017*

Between 2016 and 2018, HUD allocated over \$10 billion in CDBG-DR grants to the State of Texas to assist in its long-term recovery efforts from the devastating impact of severe storms and flooding events in 2015 and 2016 and Hurricane Harvey in 2017. The State has executed grant agreements with HUD for the 2015 Floods (B-16-DH-48-0001), 2016 Floods (B-16-DL-48-0001), Hurricane Harvey Round 1 (B-17-DL-48-0002), Hurricane Harvey Round 2 (B-17-DM-48-0001), and Hurricane Harvey Round 3 (B-18-DP-48-0001) grants. For each of the five grants referenced above, GLO has budgeted funds to ensure that 70 percent of CDBG-DR funds are used for LMI benefit and that 80 percent of funds will be spent in the HUD-identified most impacted and distressed (MID) areas, as required by the applicable *Federal Register* Notices.

The State and its subrecipients are in the initial program implementation phase for activities carried out with these grant funds. As GLO continues to determine which activities will be funded through its method of distribution (MOD) counties and/or State competition, the State executes subrecipient agreements and enters the activities in DRGR for each grant for HUD review and approval. Each of these grants has an established expenditure deadline (as identified in Table 1), based on the date funds were obligated to the grantee. HUD will work with GLO to ensure those deadlines are closely monitored so that projects stay on schedule and grant funds are expended before the respective dates.

#### *State of Texas's Subawards to the City of Houston*

The city of Houston, as a subrecipient of GLO, has been allocated over \$1.3 billion in CDBG-DR funds to administer its local disaster recovery programs. The following section summarizes the State's CDBG-DR allocations to the city of Houston for 2008, 2015, 2016, and 2017 disaster events:

- 2008 Hurricane Ike/Dolly: Under grant number B-08-DI-48-0001, the State allocated a total of \$345,872,369 to the city of Houston for recovery from Hurricanes Ike and Dolly.

Grant Status: As of this monitoring review, the city of Houston had expended approximately \$324.7 million of the allocated funds for Hurricane Ike for housing, multifamily and infrastructure programs. There are three active multi-family rental properties under construction and GLO anticipates completion by early 2020 and the Houston Housing Authority is determining how the remaining funds will be spent.

- 2015 Floods: As a HUD MID area per applicable *Federal Register* Notices, the city of Houston received a direct allocation from HUD and, therefore, is not a subrecipient of GLO for the 2015 Floods grant.

Grant Status: HUD's monitoring review did not include review of the city of Houston's direct allocation, as it is managed by HUD's Houston Field Office.

- 2016 Floods: Under grant number B-16-DL-48-0001, the State allocated a total of \$66,199,732 to eight jurisdictions within Harris County, including \$23,486,698 directly to the city of Houston, based on Harris County's method of distribution. Harris County was identified as a HUD MID area per applicable *Federal Register* Notices.

Grant Status: On October 8, 2019, HUD approved the State's Action Plan Amendment 5 to reallocate the city of Houston's non-housing/infrastructure funds, totaling \$13,159,931, to housing activities. The city of Houston's entire allocation of \$23,486,698 will be used to acquire/buyout LMI single-family or multi-family units that flooded during the 2016 event. As of this monitoring visit, GLO was reviewing the acquisition of a multi-family site, and no funds have been disbursed thus far.

- 2017 Hurricane Harvey: As a HUD MID area per applicable *Federal Register* Notices, the State allocated \$1,275,878,041 to the city of Houston under grant numbers B-17-DM-48-0001 and B-18-DP-48-0001. GLO executed a subrecipient agreement for a direct allocation to the city of Houston in January 2019 to obligate approximately \$1.1 billion of those funds. At the time of the monitoring visit, the amended subrecipient agreement to obligate the additional funds had not yet been executed.

Grant Status: The city of Houston is in the early phases of implementation of its various Hurricane Harvey disaster recovery programs (Table 2). As of this monitoring visit, GLO continues to review Homeowner Assistance Program (HAP), Homebuyer Assistance Program, and Multi-family Rental Program applications submitted by the city to determine applicant eligibility. The GLO has provided significant oversight and technical assistance to the city to ensure applicant files are complete with the appropriate eligibility documentation and properly uploaded in GLO's system of record (TIGR). Finally, the city will be requesting a waiver to the four-story residential building requirement of the Davis-Bacon Act for its Multi-family Rental Program. After the conclusion of this monitoring review, the GLO forwarded the request to the Department of Labor for review on December 17, 2019.

The city of Houston has not drawn any funds from the Hurricane Harvey grants. At the time of the monitoring, the city had only submitted two requests for payment to the GLO (totaling approximately \$1 million). Both requests were rejected by GLO as incomplete. After the conclusion of the monitoring review, the city submitted a draw for the reimbursement of four HAP program applicants in the amount of \$55,000, which was processing through GLO Financial Management.

During HUD's review of the city of Houston's overall management of its CDBG-DR subawards, HUD had concerns regarding the city's expenditure progress and overall financial management processes. The GLO and the city of Houston have not drawn any funds from the Line of Credit Control System (LOCCS) for eligible activities completed by the city for the 2016 Floods or Hurricane Harvey grant allocations. Furthermore, the city of Houston did not have overall financial management policies and procedures that address the timely expenditure of funds requirement in accordance with the State and city's executed contracts for Hurricane Harvey and 2016 Floods funding. Please see the *Analysis and Conclusion* section below for a description of the Hurricane Harvey Grant actions.

**Table 2: Snapshot of City of Houston Hurricane Harvey Grant and Program Budgets**

<b>Program</b>	<b>Status of Program (as of 10/30/2019)</b>	<b>Budget</b>
Homeowner Assistance (HAP)	Guidelines Conditionally Approved by GLO Projects Submitted to GLO - 120 GLO Requested Additional Information - 14 Projects Approved by GLO - 93 Homeowners Assisted - 29	\$427,900,063
Single Family Development	The city is developing guidelines for the program. GLO sent the city its review of guidelines and questions for response.	\$222,269,086
Multi-family Rental	Guidelines Approved by GLO Projects Submitted to GLO - 15 GLO Requested Additional Information - 15 Projects Approved by GLO - 0 Projects in Construction - 0	\$350,050,472
Small Rental	The city is developing guidelines for the program. Updated guidelines submitted for GLO review in September 2019. GLO requested that the city update its guidelines based on a previous request for information. Program activities have not begun.	\$66,686,282
Homebuyer Assistance	Guidelines Approved by GLO Projects Submitted to GLO - 23 GLO Requested Additional Information - 23 Projects Approved by GLO - 0 Homebuyers Assisted - 0	\$23,688,328
Buyout	Program guidelines were under review by the GLO. Note: The program guidelines were conditionally approved by the GLO on December 19, 2019.	\$40,800,000
Public Services	Guidelines approved by GLO The city has stated that it has received approximately 33 applications and that approximately six applications will be sent to the GLO for eligibility review in November 2019.	\$60,000,000
Economic Revitalization	The city is developing guidelines for the program. GLO extended the city's deadline to submit guidelines until 12/31/2019. Program activities have not begun.	\$30,264,834
Planning	The city is developing guidelines for the program. The GLO is awaiting additional information on how the city plans to expend its planning funds.	\$23,100,000
Administration	N/A	\$31,118,976
<b>Total</b>		<b>\$1,275,878,041</b>



## City of Houston's Disaster Recovery Website

The city of Houston maintains a public website at <https://recovery.houstontx.gov/> where the public can learn more information about the recovery efforts in the city of Houston and also redirects residents to the State's CDBG-DR website for additional grant details. Due to the city of Houston's receipt of a direct allocation from the State to implement Hurricane Harvey disaster recovery programs, the city is required to develop and post its latest GLO-approved local program guidelines, in accordance with applicable *Federal Register* Notices, on its disaster recovery website.

HUD staff reviewed the city's disaster recovery website and noted changes from its initial review during a technical assistance visit in June 2019. The city had updated and modified the website to provide more information on its recovery efforts. HUD, however, determined the website does not meet Departmental requirements in accordance with HUD's *Federal Register* Notices. Please see the *Analysis and Conclusion* section below.

## Subrecipient Oversight

During the grant lifecycle each of the State's CDBG-DR subrecipients are assigned a GLO Grant Manager, including the city of Houston's Housing and Community Development Department (HCDD). GLO requires that all subrecipients use its assigned GLO Grant Manager(s) as the main point of contact and refer all questions and requests to the assigned grant manager(s). Additionally, GLO routinely schedules and conducts regular meetings and on-site visits with its various subrecipients. The assigned GLO Grant Manager and other GLO staff, including subject matter experts, facilitate daily conference calls, weekly on-site technical assistance and monthly on-site grant/progress updates with the HCDD. At the time of this monitoring review, GLO had completed over 25 site visits, 20 training conference calls, and 40 technical assistance emails to address the city of Houston's inquiries since January 2019. Overall, HUD determined that GLO staff provide necessary technical assistance and training opportunities at the subrecipient's request and as considered appropriate by GLO and/or HCDD staff.

GLO strives to ensure that disaster recovery efforts by the State and its subrecipients have met Federal, State, and other legal requirements. In addition to frequent technical assistance occurrences, the State has conducted over 20 subrecipient monitoring reviews since April 2018, to ensure compliance with Federal and State requirements. The onsite and desk monitoring reviews included 10 subrecipient reviews for the 2008 Hurricanes Ike/Dolly grant, 9 subrecipient reviews for the 2017 Hurricane Harvey grant, and 2 subrecipient reviews for the 2015 Floods grant. According to GLO's Monitoring/Quality Assurance tracker spreadsheet, three additional reviews for Hurricane Harvey subrecipients are in the planning phases. GLO subrecipient monitoring review activities are conducted to meet the following objectives:

- Review subrecipient contract compliance;
- Evaluate compliance with Federal requirements (e.g., period of performance, financial management, activity eligibility, reporting, procurement, cross-cutting requirements, etc.);
- Evaluate processes to detect fraud, waste, and abuse;

- Identify any necessary corrective actions required; and
- Identify technical assistance needs.

If GLO identifies reoccurring unsatisfactory performance and delays in submitting responses to monitoring review reports and technical assistance recommendations, these issues may affect a subrecipient's eligibility to apply for future CDBG-DR funding (i.e. forthcoming CDBG mitigation funds) and receipt of funds under current State of Texas CDBG-DR grants. At the time of this monitoring review, GLO had completed three (3) reviews of the city of Houston's Hurricanes Ike/Dolly and Hurricane Harvey allocations, including a Pre-Award Risk and Assessment and Capacity Review for the Hurricane Harvey allocation completed by GLO's consultant Ernest & Young.

HUD notes that GLO is undertaking some Hurricane Harvey recovery activities directly, as well as providing oversight for its subrecipients, which differs from prior grant awards. Under previous disaster appropriations, recovery programs in the State of Texas were typically carried out by subrecipients only. HUD reminds GLO and its subrecipients that while Hurricane Harvey remains a priority for the State's recovery efforts, it must continue to provide the same level of oversight to meet timely expenditures requirements for the 2015 and 2016 CDBG-DR grants and to close out the 2008 and 2012 CDBG-DR grants. Since HUD's April 29-May 3, 2019, monitoring visit, the GLO identified over 60 subrecipients (46 subrecipients with a 2015 Floods grant, 13 subrecipients with a 2016 Floods grant, and two subrecipients with a 2017 Hurricane Harvey grant) as slow-spenders due to slow expenditure rates and/or lack of performance based on established milestones outlined in the subrecipient contracts. Each slow-spender subrecipient was issued a timely expenditure letter requiring a response that identified a plan and timeline for completing contract program activities within the contract term.

At the time of the review, HUD determined that the GLO was providing sufficient subrecipient oversight to the city of Houston and other subrecipients. More importantly, GLO must take action to ensure recovery assistance reaches the households and businesses that need it. HUD will continue to closely monitor GLO's organizational structure and staffing levels, along with subrecipients, to ensure effective grant implementation and oversight. HUD staff remain available to provide technical assistance to help further those efforts.

### **Staff Capacity**

The State of Texas' GLO is the designated government entity responsible for implementing the CDBG-DR grants listed in Table 1. GLO has administered CDBG-DR funds for over 12 years, and staff have substantial experience managing a variety of complex CDBG-DR programs for Hurricanes Rita, Ike, Dolly, and Bastrop Wildfires disaster recovery efforts. In addition to managing and implementing various State-run disaster recovery programs, the grantee's staff is dedicated to various administrative roles including: subrecipient oversight; systems support; customer relations; vendor management; monitoring and quality assistance; and research, training and development.

During the overall management overview, the State and the city of Houston provided HUD with updated organizational charts for review. As of the monitoring review, GLO and

HCDD have taken the following steps to increase capacity, implement programs and provide subrecipient oversight:

*State of Texas – General Land Office*

- GLO has more than 150 total employees, including GLO's Community Development and Revitalization (CDR) office and other support staff, dedicated to CDBG-DR grants.
- In September 2019, the Land Commissioner approved CDR's request to add 35 additional positions to the 108 currently in CDR to implement CDBG-DR and CDBG-MIT allocations.
- GLO has contracted with professional service vendors to assist with program implementation, grant administration, project management, and compliance with cross-cutting requirements.
- Two full-time GLO employees serve as Harris County and city of Houston lead grant managers.
- An additional 11 GLO staff members are dedicated to Harris County and city of Houston, including environmental subject matter experts.

*City of Houston's Housing and Community Development Department*

- HCDD anticipates over 120 full-time city staff implementing its CDBG disaster recovery programs. Currently, approximately 61 full-time positions have been filled, and 61 positions remain vacant. The city has accepted applications for 5 of the vacant positions. Since this monitoring review, the subrecipient has experienced turnover in at least two key positions.
- HCDD has another 94 staff within the Department that work part-time (25 percent-99 percent) on the city's disaster recovery effort.
- HCDD has assigned some of its pre-existing staff to assist with disaster recovery efforts for some Hurricane Harvey programs, including the Multi-family Rental, Public Service, and Homebuyer Assistance programs – while they continue to serve the city's CDBG entitlement program.
- HCDD hired a Training Director to develop and implement a training plan, overall training manual for new and existing staff, and staff development protocols. GLO has been working extensively with HCDD to ensure training efforts are comprehensive.
- HCDD Program Design and Implementation Team provides specialized assistance to program areas, such as conducting a staffing/organizational analysis and developing decision support tools, policies, and standard operating procedures (SOP) and workflows to HCDD staff.
- GLO Grant Managers continue to provide extensive support to new and existing staff with daily ongoing communication, training, and on-site visits.
- In addition to GLO's staff, the grantee has embedded several contracted employees within the city's offices to lend on-site support and assist the city of Houston with their Hurricane Harvey efforts.
- The city has procured a vendor for applicant intake and eligibility determination, data management, and other disaster recovery program areas. GLO reported to HUD that they had identified multiple Findings for non-compliance with Federal procurement standards, during a recent subrecipient monitoring visit. HUD performed a similar review of the

subrecipient's procurement processes during the current visit. Additional details of HUD's review can be found in the Procurement section below.

HUD acknowledges and appreciates the city's and GLO's efforts in improving overall staffing capacity and will continue monitoring progress to ensure all grants have adequate resources, including State and subrecipient staffing, to fulfill its mission as outlined in each Action Plan across the various CDBG-DR appropriations. The Department recommends the city continue to fill vacancies to ensure adequate oversight and compliance with Federal requirements.

### Analysis and Conclusion

HUD acknowledges the GLO's efforts in the overall management of its CDBG-DR funds, including compliance with *Federal Register* Notices and other Federal requirements. The Department further recognizes improvements in overall staff capacity and subrecipient oversight. HUD will continue monitoring the progress of the State's disaster recovery programs to ensure all grants have adequate resources, including State and subrecipient staffing to fulfill the recovery goals as outlined in each appropriation's Action Plan. **As a result of HUD's overall management review, the Department has one Finding and three Concerns.**

**Finding 1: The State of Texas has not ensured the city of Houston's CDBG disaster recovery website complies with requirements outlined in applicable *Federal Register* Notices.**

**Condition:** The State of Texas is required to maintain a public website according to guidance in HUD's applicable *Federal Register* Notices for the Hurricane Harvey appropriation. The GLO has also included the website requirements for the city of Houston through its subrecipient agreement. Although various Hurricane Harvey program guidelines have been approved by GLO, the city's disaster recovery website (<https://recovery.houstontx.gov/>) does not always provide the most recent version of the subrecipient's policies and procedures. The city's website includes [draft] program policies and procedures that have not yet been approved by GLO, multiple versions of the same program policies or guidance on different pages, and several key documents that are not consistently posted for all recovery programs to which they apply.

**Table 3: City of Houston Hurricane Harvey Program Guidelines Statuses**

Program	Status of Program Guidelines	Website Status/ Last Updated	Accessible on Program Guidelines page? (Y/N)	Accessible on Program page? (Y/N)
Homeowner Assistance (HAP)	Conditionally approved by GLO on 1/14/19 and 10/31/19	Approved / October 31, 2019	Y	N
Single Family Development	Under development by HCDD.	Draft / August 13, 2019	Y	Y
Multifamily Rental	Approved by GLO on 5/21/19	Draft / May 20, 2019	Y	Y
Small Rental	Under development by HCDD	Draft / November 8, 2019	Y	Y

Homebuyer Assistance	Approved by GLO on 4/22/19	Approved / April 30, 2019	Y	Y
Buyout	Conditionally approved by GLO on 12/19/19	Draft / October 1, 2019	Y	N
Public Services	Approved by GLO on 5/15/19	Approved / May 9, 2019	Y	Y
Economic Revitalization	Under development by HCDD	Not Listed	N	N
Planning	Under development by HCDD	Not Listed	N	N

**Criteria:** HUD's *Federal Register* Notices (83 FR 5854) requires each grantee to maintain a public website that provides information accounting for how all grant funds are used and managed/administered. The website must include CDBG-DR program policies and procedures, activity/program information for activities described in its action plan, and details of all contracts and ongoing procurement policies. Furthermore, the State of Texas certified that it has adequate procedures in place to maintain a public website according to the requirements.

**Cause:** The city of Houston's Hurricane Harvey recovery programs are in various stages of development and implementation. During the State's monitoring review in October 2019 the GLO identified deficiencies in the city's procedures for maintaining a comprehensive CDBG-DR website. In its review, HUD noted that the policy failed to define the frequency of website maintenance and updates and identified the staff members responsible for the updates by name, rather than position title. The city advised HUD that HCDD staff were updating the website maintenance policies and submitted a draft of the proposed revisions.

**Effect:** GLO and its subrecipient have not provided the public with the latest CDBG-DR program policies and procedures through its disaster recovery website, and therefore, has not met the public website requirements contained in applicable *Federal Register* Notices.

**Corrective Action:** Within 60 days of this report, the city and State should complete the revisions to its Website Maintenance Policy, in accordance with applicable *Federal Register* Notices, to facilitate timely updates to the city's disaster recovery website. Furthermore, the city of Houston should update its disaster recovery website to include the latest GLO approved program policies and procedures and notify the GLO once the updates have been completed.

**Concern 1:** **The GLO's may have to provide additional oversight as its subrecipient, the city of Houston's HCDD, may not have sufficient capacity to properly manage and process its CDBG-DR funds in a compliant and timely manner.**

**Condition:** The city of Houston's HCDD organizational chart identifies over 120 full-time positions for its disaster recovery programs, of which 61 were vacant. The vacancies include several key positions including two of the three manager positions for the largest single program under the Hurricane Harvey recovery grant – the city's Homeowners Assistance Program (HAP). Because HCDD is also responsible for implementing other HUD programs, that are not associated with disaster recovery, its organization charts include an additional 94 staffed positions who are expected to spend 25 percent-99 percent of their time working on disaster recovery efforts. It is unclear how those staff members will split their time between various CDBG-DR and regular CDBG programs as opposed to other staff who will dedicate 100 percent of their time to disaster recovery efforts.

**Cause:** Three major disaster events hit several areas in Texas multiple times and in quick succession, overwhelming staff capacity at all levels (local, county, and State). The city's limited staff resources have been dedicated to immediate recovery needs, completing local action plans, executing subrecipient agreements, developing program guidelines, and addressing various Federal and State requirements prior to implementing programs.

**Effect:** The city of Houston's CDBG-DR program is plagued with many staff vacancies (including several key management positions), high staff turnover, slow hiring processes, and lack of effective hiring and onboarding plans for new staff. These capacity issues are slowing down the city's ability to develop and implement programs and all but eliminating the need to draw down its CDBG-DR funding from the State of Texas. Moreover, the city of Houston may not meet its expenditure deadlines, as outlined in its subrecipient agreements with the State for its 2016 and 2017 disaster recovery grants. The city's failure to meet its expenditure deadlines would also jeopardize the State's ability to meet its six-year deadline to expend all CDBG-DR funds, as defined in applicable *Federal Register* Notices governing the State's active 2016 Floods and 2017 Hurricane Harvey grants.

**Recommended Corrective Action:** The city should take appropriate steps to fill existing vacancies within the HCDD by developing a hiring plan for GLO's review and a timeline for filling key positions. The city and GLO should ensure new and existing staff are trained to sufficiently complete assigned responsibilities. Finally, HUD recommends that GLO continue to monitor and work with the city and its other subrecipients to document staffing needs as programs progress and determine where current staffing levels are insufficient to support future hiring.

**Concern #2:** **The State's recovery efforts may be at risk as the city of Houston has multiple sets of operational policies and procedures that are not integrated or coordinated, thus hampering the city's ability to achieve effective and efficient recovery.**

**Condition:** HUD reviewed the city's policies and procedures for several of its disaster recovery programs. These work procedures were designed by the city to meet a number of HUD requirements, including the following: duplication of benefits (DOB) determinations, financial management, citizen participation, activity delivery costs, fraud waste and abuse, operations and compliance monitoring plan (GLO and city of Houston subrecipient monitoring plans), applicant appeals and complaints, escrow services and other compliance with cross-cutting requirements, minority, women-owned small business enterprises contract compliance and Section 3 policies. The city's procedures do not provide a clear workflow for program implementation and overall management of its CDBG-DR grant allocations. Furthermore, the procedures are not comprehensive, as they do not address key processes in the overall management of CDBG-DR funds. For example, the overall financial management policies and procedures reference the timely expenditure of funds requirement for the city's Hurricane Harvey HAP program, but do not include other CDBG-DR funding that is also subject to those same requirements in accordance with the State and city's executed subrecipient agreements.

**Cause:** While the State has developed an Implementation Plan for its subrecipients to use as guidance for managing its CDBG-DR subaward, the city of Houston has not yet applied that guidance to developed grant-wide policies or SOP specific to its allocation from the State.

**Effect:** The separate program-level procedures developed by the city do not allow for the complete workflow of the city's various CDBG-DR grants from planning, to program implementation, and grant closeout phases. Additionally, having multiple sets of procedures makes the overall process redundant, inefficient and inconsistent for new and existing city staff.

**Recommended Corrective Action:** HUD recommends the State work with the city to consolidate current procedures and develop additional city-specific key SOPs to ensure timely expenditure of funds and effective implementation of its CDBG-DR program, in accordance with applicable *Federal Register* Notices and executed subrecipient agreements with GLO. Furthermore, the city should dedicate a team to ensure grant-wide policies and SOPs are updated as necessary.

**Concern 3:** **The GLO has not drawn any funds from the State's LOCCS accounts for the 2016 Floods or 2017 Hurricane Harvey grants for costs incurred by the city of Houston.**

**Condition:** The 2016 Floods grant (B-16-DL-48-0001) was originally obligated to the State in November 2017. The grant has a disbursement period that will expire six years after the funds were obligated to the grantee. As of this monitoring review, 33.3 percent of the six-year term has lapsed. Although the State executed the initial grant agreement with the city for B-16-DL-48-0001 on March 19, 2019, GLO's expenditure deadline for this grant is November 1, 2023.

Similarly, the Hurricane Harvey grant (B-17-DM-48-0001) was originally obligated to the State in August 2018. This grant is also restricted to a six-year funding availability period. As of this monitoring review, 19.4 percent of the six-year term has lapsed. The city of Houston's subrecipient award (\$1.2 billion) represents roughly 22.5 percent of the entire grant. Although the State executed the initial grant agreement with the city for B-17-DM-48-0001 on January 4, 2019, GLO's expenditure deadline for these grant funds is August 17, 2024.

As of this monitoring review, the city has failed to make significant progress under these grants, as their financial records indicate just over \$15 million in locally funded recovery expenditures. In addition, the city had only submitted two requests for payment to the GLO (totaling approximately \$1 million), and both requests were rejected by GLO as incomplete.

**Cause:** Three major disaster events hit several areas of Texas multiple times and in quick succession, overwhelming staff capacity at all levels (local, county, and State). The city of Houston does not have financial management policies and procedures in place to address the documentation requirements of GLO in order to request grant funds.

**Effect:** GLO is in jeopardy of missing its six-year expenditure deadline for the B-16-DL-48-0001 and B-17-DM-48-0001 grants.

**Recommended Corrective Action:** GLO should ensure that 2016 Floods and 2017 Hurricane Harvey grants' projection of expenditures (both grantee and subrecipient level) are updated to reflect accurate historical data, and projections that are both achievable and adhere to the 2023 expenditure deadline for both grants. The grantee should also make sure the city updates its financial management policies and procedures to address timely expenditure of grant funds and

other key processes and checklists for the submission of draw requests that will be eligible for processing by the GLO. Furthermore, GLO and the city should examine current program designs and funding, particularly those programs that are either not yet implemented, or have met with substantial delays, to determine if changes might be needed to meet the disbursement deadline for each grant.

## **PROCUREMENT**

### **Scope of Review**

During the monitoring visit, the Department examined the city’s procurement processes, relevant policies and procedures, and a sample of contracts and their related procurement records. The purpose of the Department’s review was to determine if the city has procurement policies and procedures that incorporate 2 CFR 200.318 through 200.326, as prescribed by the State of Texas, and adheres to all requirements described in the applicable *Federal Register* Notices. The State’s CDBG-DR awards and the city’s subawards are subject to the requirements in both the August 14, 2018 *Federal Register* Notice, 83 FR 40317, and the February 9, 2018 *Federal Register* Notice, 83 FR 5844.

Houston’s procurement policies and procedures were reviewed along with a sample of procurement records listed in the table below.

**Table 4. Procurement Records Reviewed**

<b>Type of Services</b>	<b>Contractor Awards</b>
Information Management System	I&I Software, Inc.
Data Analytics	Civis Analytics, Inc.
Construction Services	Burghli Homes
	DSW Homes, LLC
	James W. Turner Construction, Ltd
	SLSCO, Ltd
	Tegrity Homes

The State of Texas delegated responsibility for local procurement and contract reporting to the city of Houston through its subrecipient agreement. However, HUD found that the city had inadequate contract and procurement files and at times, was unable to explain whether CDBG-DR funds would be used to fund certain disaster recovery contracts, as described below.

As has been previously communicated to GLO in Finding 3 of the HUD-issued monitoring report dated September 8, 2018, it is difficult for the public to find information on all procured contracts for each CDBG-DR grant as only partial information is located on GLO’s website. The State of Texas, as the HUD grantee for the 2017 Harvey funds, is ultimately responsible for maintaining “...a summary of all procured contractors, including those procured by the grantee, recipients, or subrecipients” (February 9, 2018 *Federal Register* Notice, 83 FR 5844 at 5860). GLO cannot delegate this requirement to the City of Houston, and must utilize the Department’s Contract Reporting Template to provide details on all contracts to be funded in whole, or in part, with CDBG-DR funds procured by the grantee or its subrecipients, including the city of Houston. This previously issued Finding remains open until the Contract Reporting Template on GLO’s



website includes details on the city of Houston's CDBG-DR funded contracts.

Under the February 9, 2018, Notice, the State is required to “establish requirements for procurement policies and procedures for . . . subrecipients based on full and open competition consistent with the requirements of 24 CFR 570.489(g), and shall require an evaluation of the cost or price of the product or service.” The State required Houston, as its subrecipient to comply with the procurement requirements at 2 CFR 200.318 through 200.326. The State also “continue[s] to be responsible for . . . compliance with 24 CFR 570.489(m) relating to monitoring and management of subrecipients.” 83 FR at 5854.

### **Information Management System Procurement (I&I Software, Inc.)**

During the review of the Information Management System Procurement, the city provided no documentation of the procurement history for the I&I Contract. Under the requirements at 2 CFR 200.318(i), the city is required to “maintain records sufficient to detail the history of procurement.” These records must, at a minimum, include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. The only document available on the city's website or provided to HUD during monitoring was the executed contract between the city and I&I, signed by the city on November 1, 2018, and evidence of after the fact debarment checks.

The contract appeared to incorporate and modify a pre-existing 2014 contract between the city and I&I. The city provided no evidence that this contract was entered into through a procurement process based on full and open competition, in compliance with 2 CFR 200.318 through 200.326, or that a cost or price analysis was conducted, per 2 CFR 200.323(a). The city provided inconsistent explanations of the process used to secure the I&I Contract, and verbally confirmed that the selection was not based on a competitive process, but rather on the recommendation of another contractor, Aptim.

Under the February 9, 2018, Notice (83 FR at 5854), the state is “responsible for . . . compliance with 24 CFR 570.489(m) relating to monitoring and management of subrecipients.” GLO provided HUD with a monitoring report documenting the results of its procurement monitoring of the city of Houston. The review was conducted between June 10 and July 2, 2019, and included the city's procurement of its I&I contract. In the resulting monitoring report dated October 11, 2019, GLO identified a number of “key risk areas” (including those related to compliance with 2 CFR part 200 procurement standards and the requirement for a cost or price analysis), and included “corrective actions” for the city to implement.

The regulations at 24 CFR 570.489(m) provides that “2 CFR 200.330 through 200.332 are applicable.” 2 CFR 200.331(d) provides that the grantee must:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and performance reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.

HUD recognizes that at the time of the visit, GLO was still following up with the city to see if corrective actions imposed by the State under its prior monitoring of the procurement process had been implemented. Although CDBG-DR funds had not been drawn to reimburse any of the costs associated with the questioned procurement, the Department is issuing a Concern related to GLO's monitoring and management of its subrecipient under 24 CFR 570.489(m) as the GLO identified deficiencies were still pending, the city did not foreclose the possibility that it might seek reimbursement with CDBG-DR funds, and the city was unable to demonstrate compliance with 2 CFR part 200 procurement requirements, which would apply if CDBG-DR funds are drawn for this procurement. When asked how much of this contract the city intended to charge to the State's CDBG-DR grant, the city indicated that it is still determining if it will seek reimbursement under the grant. This is confusing since this contract was included in the city of Houston's CDBG-DR website and was provided to HUD as part of its review. This is a Concern and not a Finding as no CDBG-DR funds have been drawn for this procurement at the time of this review.

**Concern 4: The city of Houston failed to resolve deficiencies identified by GLO's monitoring report and/or the grantee failed to provide the subrecipient with adequate training and technical assistance to ensure compliance with general procurement standards.**

**Condition:** GLO must comply with 24 CFR 570.489(m), 2 CFR 200.331(b), 2 CFR 200.331(e) regarding subrecipient monitoring and oversight to ensure the city complies with all requirements for procurement including fair and open competition, conducting cost or price analysis, and documentation of compliance with suspension and debarment requirements prior to executions of a contract.

**Cause:** The city may have relied on a procurement conducted prior to the Federal award to GLO and the subsequent subaward from GLO to the city that did not meet the required procurement standards.

**Effect:** From the documentation maintained in the procurement record, the procurement of I&I Software, Inc. did not follow procurement procedures contained within 2 CFR 200.318 through .326. Any costs incurred under this contract will not be eligible for CDBG-DR funding.

**Recommended Action:** GLO should continue to provide technical assistance to the city of Houston on procurement requirements and disallow the use of CDBG-DR funds on any procurement where GLO's monitoring determines that there is not appropriate documentation to show compliance with procurement standards. As a reminder, the State is ultimately responsible for the use of all funds as the direct HUD grantee.

**Construction Services Procurement (Burghli Homes; DSW Homes, LLC; James W. Turner Construction, Ltd.; SLSCO, Ltd.; Tegrity Homes)**

HUD asked for the full procurement file associated with the city's Construction Services Procurement to assess compliance with 2 CFR part 200. The records associated with this procurement were the most comprehensive of the three procurement transactions reviewed, however, they did not sufficiently detail the history of procurement as required under 2 CFR 200.318(i). Specifically, the procurement records did not contain information on contractor selection or rejection of other submitted bids. 2 CFR 200.318(i) states that "the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include... contractor selection or rejection, and the basis for the contract price." As an example, Brizo Construction submitted a bid, however there was no documentation in the file regarding the rejection of this bid response and the company did not show up on the bid tabulation table provided by the city.

Compliance with 2 CFR 200.489(m) is listed in Concern 4 above. Although GLO did not include the Construction Management Services Procurement as part of its monitoring sample, HUD's review resulted in the same concern reflected in Concern #4 along with the same recommended action. Therefore, a separate Concern on this issue is unnecessary.

A question from GLO arose regarding the use of price as an evaluation factor as these contracts are being treated as A&E and Design Build Contracts. HUD is continuing to research this topic and will follow-up via email to GLO.

**Data Analytics Procurement (Civis Analytics, Inc.)**

The city files indicate that the entire procurement process, except for the execution of the city – Civis contract occurred before HUD's publication of the February 9, 2018, *Federal Register* Notice allocating CDBG-DR funds to the State. The RFP was issued on October 24, 2017, with bids due November 11, 2017. Approval of the agreement with Civis was placed on the agenda for the City Council on February 7, 2018. The contract itself is dated February 28, 2018.

While the city allocated city funds to initially pay for the first year of this contract, the agreement expressly provides that the city contemplated reimbursement of costs with Federal Emergency Management Agency (FEMA) funds, subjects the contractor to FEMA requirements and incorporates a GLO-city subrecipient agreement related to FEMA assistance, Federal Award Number HSFE06-17-0-0002, awarded to the State on September 22, 2017. See e.g., Section 6.21 of Civis Contract, "City intends to seek reimbursement from . . . ("FEMA") for costs incurred under this Agreement. The Parties agree to comply with all FEMA requirements outlined in the Agreement, including the applicable exhibits (including Exhibits E, F, and G), and additional clauses outlining FEMA requirements attached hereto as Exhibit D to this Agreement, and made a part hereof."; Exhibit D Additional FEMA Clauses; and Exhibit I GLO-city subrecipient agreement.

The State's CDBG-DR awards under Public Laws 115-56 and 115-123 are statutorily prohibited for use "for activities reimbursable by, or for which funds are made available by, the FEMA or the USACE." The city's contract with Civis explicitly considers reimbursement with FEMA funds and it is not clear how these costs can be charged to the State's CDBG-DR awards

consistent with the law. Given this, the Department did not look further into the method of procurement (i.e. selection of contract type, contractor selection or rejection, basis for contract price).

Additionally, there is no evidence the city conducted a cost or price analysis as required by 2 CFR 200.323(a). Similar to the previous concern, HUD is issuing a Concern related to GLO's monitoring and management of its subrecipient under 24 CFR 570.489(m), given that the city did not foreclose the possibility that it might seek reimbursement with CDBG-DR funds, and was unable to demonstrate compliance with 2 CFR part 200 procurement requirements, which would apply if CDBG-DR funds are drawn for this procurement.

Additionally, if any CDBG-DR are expended for this procurement before the issues have been resolved by GLO, HUD will issue a Finding of noncompliance.

**Concern 5: GLO is at risk of not meeting its obligations under 24 CFR 570.489(m) to properly monitor and manage subrecipients to ensure that the subaward is used for authorized purposes and complies with Federal statutes and requirements.**

**Condition:** 24 CFR 570.489(m) to ensure subrecipients comply with procurement standards and the statutory prohibition to use CDBG-DR funds for use "for activities reimbursable by, or for which funds are made available by, the FEMA or the USACE." Contained in Public Law 115-56 and 115-123.

HUD's review of the Data Analytics Procurement and the resulting contract with Civis Analytics, Inc. indicated that this contact would be reimbursed by a FEMA award, but the city left open the possibility that it would seek reimbursement with CDBG-DR funds and was not able to justify why it did not seek reimbursement for the costs associated with this contact through the identified FEMA award. CDBG-DR funds appropriated in Public Law 115-56 and 115-123 are statutorily prohibited for use "for activities reimbursable by, or for which funds are made available by, the FEMA or the USACE." Additionally, there was no documentation of a cost or price analysis.

**Cause:** The city may have been unaware of the statutory prohibition to use CDBG-DR funds for use for activities reimbursable by, or for which funds are made available by, the FEMA or the USACE. Additionally, the city may have been unaware of a requirement to conduct a cost or price analysis in connection with every procurement transaction above the Simplified Acquisition Threshold of \$250,000.

**Effect:** Unless the city is able to provide additional justification and documentation, this contact is ineligible to be funded by the CDBG-DR Grant.

**Recommended Action:** GLO should continue to provide technical assistance to the city of Houston on procurement allowability of procurement requirements and disallow the use of CDBG-DR funds.

## Analysis and Conclusion

### CITY OF HOUSTON HURRICANE HARVEY - HOMEOWNER ASSISTANCE PROGRAM (HAP)

The city of Houston Hurricane Harvey HAP is administered by the city's HCDD under a subrecipient agreement with the State of Texas GLO for grant numbers B-17-DM-48-0001 and B-18-DP-48-0001 under P.L. 115-56 and P.L. 115-123. The city has allocated a total budget of \$427,900,063 of Hurricane Harvey funds awarded from GLO to its HAP.

HAP consists of five program options to assist eligible homeowners with housing rehabilitation or reconstruction needs following damage by Hurricane Harvey. The five options are noted herein: city-managed rehabilitation and reconstruction, reimbursement, acquisition, homeowner-managed rehabilitation, and interim mortgage assistance. As of the monitoring review, the HAP acquisition program option had not yet been implemented.

**Table 5: City of Houston Homeowner Assistance Program Options**

Program	Program Description
Reimbursement	Homeowners who have completed partial or full repairs on their home before applying to the program may be eligible for reimbursement of eligible expenses incurred, prior to application to the program, for work performed to minimum program standards, following an environmental clearance.
City-Managed Rehabilitation and Reconstruction	The city of Houston will manage and complete the construction process for the rehabilitation (including elevation) or reconstruction of damaged homes on behalf of homeowners.
Homeowner-Managed Rehabilitation	The city of Houston will assist homeowners to manage their own rehabilitation process (including elevation) and will provide construction advisory services for these homeowners. <b>This program option was in the process of being eliminated as of this monitoring review.</b>
Acquisition	The city of Houston may elect to voluntarily acquire single family homes for rehabilitation, reconstruction, or new construction. The home acquired may then be reconstructed through the Single-Family Development Program or rehabilitated or reconstructed by the city or its subrecipients.
Interim Mortgage Assistance	Interim mortgage assistance may be provided as an additional service to homeowners determined eligible under the City-Managed or the Homeowner-Managed program options. These homeowners may be eligible to receive up to 20 months of assistance.

The city selects HAP program option(s) for each homeowner applicant based on their status in the recovery process and the condition of their home at the time of application. The post-disaster value of the home and estimated cost of improvements are used to determine the

options(s) available to each homeowner. To be eligible for any of the five HAP options, properties must be located outside of a floodway; not subject to repetitive damages (based upon reporting to the FEMA National Flood Insurance Program, and; the home must have been the primary residence of the owner as of August 25, 2017.

HAP is administered by HCDD staff as well as contracted vendor support for marketing, outreach, application intake and homeowner rehabilitation and reconstruction contractor management. The program is being implemented in four phases, which reflect funding priorities that have been established to assist vulnerable populations and LMI households. These priorities and subsequent program phases are based on the following criteria.

1. Elderly (62 years or older) or disabled households at or below 80 percent AMI
2. Households at or below 80 percent AMI with children
3. Households at or below 50 percent AMI
4. Households at or below 80 percent AMI

### **Scope of Review**

HUD used the following guidance and documentation for its review of the Housing Assistance Program: Monitoring Exhibit 6-6: Guide for Review of Housing Rehabilitation and Reconstruction; State of Texas GLO CDBG-DR Action Plan Non-Substantial Amendment 4 (including city of Houston Hurricane Harvey programs approved by HUD on September 11, 2019); city of Houston Hurricane Harvey HAP Guidelines (last updated October 31, 2019); and the city of Houston's SOP. HUD reviewed program policies and procedures, activity eligibility and national objective documentation, as well as program and applicant files. HUD interviewed personnel from the city of Houston and GLO to understand how the procedures were used to implement and manage the HAP. HUD determined that the city's program guidelines and SOP's were inconsistent and were not combined in a cohesive manner. HUD also noted that there were multiple SOP's related to the various housing programs, each with a different policy revision date.

A sample of eight HAP applicant files were examined as part of the monitoring review, using the city's recordkeeping data system. These files were in various stages of programmatic review and approval. Of the eight applicant files, two reimbursements have been completed. The data provided in the GLO pipeline report (dated September 30, 2019) indicated that 19 applications had been returned to the city of Houston for incompleteness; 75 projects had been approved for construction/reimbursement; 70 LMI projects have been approved; five construction projects have been completed, and; a total of 17 applicants had received reimbursement for expenses related to rehabilitation or reconstruction. As of this monitoring review, the city has completed five rehabilitations, one reconstruction, and 24 reimbursements. Although the program records indicated costs had been incurred by the city, no funds had been drawn from the grant for those expenditures.

**Table 6: Files Reviewed for Homeowner Assistance Program**

<b>Applicant ID</b>	<b>Funds Expended</b>	<b>Date of Expenditure</b>
HAP-277-09	\$1,992	N/A – Under review by GLO
HAP-231-41	\$4,829	N/A – Under review by GLO
HAP-255-06	\$222,942	N/A – Under review by GLO
HAP-401-72	\$272,676	N/A – Under review by GLO
HAP-453-71	\$213,921	N/A – Under review by GLO
HAP-485-27	\$3,415	N/A – Under review by GLO
HAP-520-88	\$14,840	N/A – Under review by GLO
HAP-568-78	\$209,617	N/A – Under review by GLO
<b>Total</b>	<b>\$944,232</b>	

HCDD staff have indicated that an impediment for the reconstruction program is the submission and approval of the design to the homeowner association particularly in older neighborhoods. Houston Homeowner Associations (HA) are prevalent, and the city is working with the HA's to develop a mutually acceptable design review process.

HCDD also reported that the size of the houses has also been a concern among homeowners who are approved for the program standard two-bedroom, two-bath home, but who previously resided in a larger home. GLO has given conditional approval for a larger home when necessary to meet applicant's needs, such as a room for a caretaker. GLO has also provided conditional approval for 23 three-bedroom homes to be built based upon the city agreeing to pay the additional costs associated with the larger home size. To date, HCDD has submitted two waivers with one home reconstructed and one waiver denied. GLO is awaiting city council approval for the remaining applications.

### **Analysis and Conclusions**

Based on this monitoring review, it was determined that the city of Houston is following HUD's standards but must show significant improvement in the area of recordkeeping. As a result of this review, **there are no Findings and one Concern.**

**Concern 6: The city of Houston's HCDD is not following the recordkeeping procedures that have been established for its Hurricane Harvey HAP, and program guidelines for various types of housing assistance are not being consistently maintained.**

**Condition:** Recordkeeping requirements provide that the State and applicable subrecipients shall establish and maintain such records as may be necessary to facilitate review and audit by HUD.

*24 CFR 570.490(a)(1) - The State shall establish and maintain such records as may be necessary to facilitate review and audit by HUD of the State's administration of CDBG funds under § 570.493. The content of records maintained by the State shall be as jointly agreed upon by HUD and the States and sufficient to enable HUD to make the*

*determinations described at § 570.493. For fair housing and equal opportunity purposes, and as applicable, such records shall include documentation related to the State's AFH, as described in 24 CFR part 5, subpart A (§ 5.168). The records shall also permit audit of the States in accordance with 2 CFR 200, subpart F.*

and

*570.490(b) - The State shall establish recordkeeping requirements for units of general local government receiving CDBG funds that are sufficient to facilitate reviews and audits of such units of general local government under §§ 570.492 and 570.493.*

Per the monitoring review, the city of Houston's Hurricane Harvey HAP applicant files/documentation are insufficient as staff were not able to provide HUD with complete HAP applicant files. GrantWorks, the city's Hurricane Harvey recordkeeping system, is under development and is not yet compatible to the GLO's recordkeeping system, TIGR. As a result, city staff are using hardcopies of the files, which are housed in several locations depending on which section of the applicant's file by any of the city of Houston disaster recovery teams. Data in GrantWorks is also not reflective of the applicant's current status. Once the city of Houston approves an applicant, the file is then sent to GLO and input into TIGR where the applicant file undergoes a three-tier review process by GLO staff. GLO staff determine whether the files are either approved or sent back to the city of Houston for more information.

**Cause:** The city of Houston staff program capacity has impacted the HAP applicant quality control process. There is no one individual city of Houston disaster recovery staff member reviewing an application in its entirety prior to submitting to GLO's TIGR system. The city of Houston disaster recovery teams within HCDD work independently and do not communicate during the applicant review. Also, two of three key HAP program positions were vacant at the time of this monitoring review.

**Effect:** Failure to maintain proper documentation in project files may result in the city of Houston, and ultimately the State of Texas GLO's, inability to meet key program requirements and can result ineligible expenditures or other forms of noncompliance. The applicant approval process is slow; GLO has had to request additional documentation for 115 out of 129.

**Recommended Corrective Action:** The city of Houston HCDD should incorporate recommendations and guidance from HUD and the State of Texas GLO Subrecipient SOP and update the city's HAP checklist for application review before submitting to GLO via TIGR. The city Summary of the HAP review document updates should be provided to GLO (for approval) and HUD within 60 days of the issuance of the monitoring report.

### **Technical Assistance and Recommendations**

HUD technical assistance (TA) with respect to the city's HAP policies and procedures, guidelines were provided with the following recommendations during the monitoring visit. HUD recommends the city make updates to its Hurricane Harvey HAP Guidelines last updated October 31, 2019.



- Additional clarity should be provided to determine what types of properties are eligible for the program. Clarify which damaged properties are eligible in addition to the existing group of eligible mobile home, manufactured housing units and stick built homes (Page 10).
- Provide the criteria for financial hardships mentioned on Page 19. The criteria should indicate when modifications to unit size will be considered by HCDD for special circumstances such as familial status, property lot constraints, city ordinances and financial circumstances.
- The policies and procedures, guidelines do not specifically address Special Flood Hazard Areas (SFHA) or 100-year flooding events which is not synonymous with properties located in a floodplain. GLO and HCDD should refer to HUD Monitoring Exhibit 6-6: Questions 13b-13d when developing a policy as well as consulting the HUD Fort Worth Region Environment Officer for CDBG-DR. See the referenced Field Environmental Officer contact information below. SFHAs should be incorporated into the prior federal disaster assistance checks for Section 11 of the HAP application (as described on Page 19).
  - Ms. Kelly Warner is the Field Environmental Officer, Region VI, she can be reached at (817) 978-5622 or at Kelly.S.Warner@hud.gov.
- All deductible expenses such as child support payments should be listed to ensure an accurate calculation of income and eligibility (Page 27).
- Owner occupants with attached rental properties are ineligible for the HAP program. The information regarding alternatives for these owners is currently listed under the information related to owner-occupants who have sold homes.
- There is no policy to describe the circumstances governing the city's recapture of funds. This policy should be developed and included in the guidelines and the city's SOP. The HAP Homeowner-Managed Construction SOP on Pages 22-24 provides information on the method of recapture that could be incorporated into the Points-in-Time and Process Segment section of the DOB SOP.
- The Complaint and Appeals Disaster Recovery SOP (Page 3) states, "Where this document and HCDD Policy #23-038 conflict, HCCD Policy #23-038 will control." The policy should be included in this section to ensure that the city's SOPs and HAP guidelines document, that do not conflict. Also, the appropriate department within HCDD which refers concerns and/or disputes for issues such as the Uniform Relocation Act, Anti-Fraud Waste and Abuse matters, contractor concerns, etc. should be identified.

## **CITY OF HOUSTON HURRICANE IKE/DOLLY - MULTIFAMILY RENTAL ROUND 2 PROJECTS**

The city of Houston Hurricane Ike/Dolly Multifamily Rental Round 2 projects are administered by the city's HCDD under a subrecipient agreement with the State of Texas GLO for grant number B-08-D1-48-0001 under P.L. 110-329. The second round of CDBG-DR funding allocation from the State of Texas, totaling \$91,401,917, has funded multiple programs and various projects. The CDBG-DR funds enabled the State and city of Houston to address an unmet need for affordable rental housing by replacing a substantial number of housing units lost due to Hurricane Ike (DR-1791). According to the FEMA Preliminary Damage Assessment reports and maps, this disaster directly impacted the city of Houston and caused extensive damages to multiple surrounding counties located throughout the easternmost parts of the State.

## Scope of Review

Using HUD Monitoring Exhibit 6-3: Guide for Review of New Construction of Housing, along with Exhibit 6-6: Guide for Review of Housing Rehabilitation and Reconstruction, HUD examined multiple areas as part of the monitoring review. These areas include program policies and procedures, activity eligibility and national objective documentation, tenant/applicant file review and DRGR activity setup. HUD selected three of the six multi-family rental housing projects located throughout the city of Houston for review. Table 7 (shown below) includes an overview of each project reviewed with the total number of units, the number of low-income units, activity line item budget allocations, and activity funds disbursed for each of these three multifamily housing projects. HCDD used CDBG-DR funds, along with HOME program funds for each rental housing project. City staff provided current flood zone and service area maps that indicated these projects are not located in a flood zone (included as part of the environmental assessment). Each housing project features a resilient design, located within proximity of A and B-Rated schools and job centers and consists of either single or multifamily bedroom housing units.

As of this monitoring review, the rehabilitation or construction is complete for each project reviewed. Based on the monitoring review of HCDD recordkeeping system, OnBase, all CDBG-DR funds allocated for each project mentioned above have been fully disbursed. The multifamily housing projects also address an “unmet replacement housing need” due to the substantial loss of affordable rental housing (single and multifamily units) caused by Hurricanes Ike and Dolly. HCDD noted that its goal is for 1,348 of its housing units will be guaranteed affordable at a minimum for 20 years and, for most, up to 40 years.

**Table 7: Multi-family Rental Round Two Housing Projects Budget Overview**

<b>Project Name</b>	<b>Activity Type</b>	<b>Total Number of Low-Income Units (%)</b>	<b>Total Number of Units</b>	<b>Activity Line Item Budget Allocation*</b>	<b>Activity Funds Disbursed*</b>
Avenue Station	New Construction	52 (76%)	68	\$5,981,135	\$5,981,135
Village at Palm Center	New Construction	200 (90%)	222	\$16,800,000	\$16,800,000
Cleme Manor	Rehabilitation	284 (100%)	284	\$3,000,000	\$3,000,000
<b>Total</b>		<b>536 (93%)</b>	<b>574</b>	<b>\$25,781,135</b>	<b>\$25,781,135</b>

*\*Data from HCDD recordkeeping system as of 11/4/2019.*

HUD navigated through the HCDD website, which contains multiple CDBG-DR program documents such as updated policies and procedures manual, HUD-approved action plan and subsequent action plan amendments, subrecipient and subcontractor written agreements, and other CDBG-DR programs data and general information. HCDD uses multiple contractors, partners and other city departments and legal services to assist with their numerous CDBG-DR programs. HUD reviewed additional information through HCDD’s online information

management system (OnBase) which was built, administered and maintained by GrantCare for its CDBG-DR programs reporting and its tenant/applicant file database. HUD compared HCDD's CDBG-DR data and general information against the DRGR system data. According to DRGR system data as of November 2, 2019, this multifamily housing rental program identified as Activity #72121001-Rental-LMI-Multi-family, has an overall program budget (consisting of program funds and program income) totaling \$61,017,436.53. In addition, this program has disbursements totaling over \$60,244,477 (approximately 99 percent).

As part of its review, HUD selected a random sample of 12 tenant files from various residences (project sites) to examine various data points, including: move-in dates, unit types, number of occupants, tenant total rent amount, and tenant annual gross income verification. HCDD engaged a contractor for application intake and implemented a detailed LMI certification process to determine income eligibility (at the time of a tenant's initial lease) based on annual HUD HOME income limits (as defined under 24 CFR 92.203). Annual HOME income limits data uses HUD Fair Market Rent (FMR) Area data effective for each year. This data was used as part of its LMI certification process to determine and justify applicable/affordable rental housing rates. It is critical that these proposed initial rates do not exceed currently published HUD HOME guidelines for affordable rent and are acceptable to the owner (as defined under 24 CFR 92.252) for HOME-funded projects. The city of Houston adopted a "floating unit" methodology for restricting units, as defined under 24 CFR 92.252(i). Based on the review of this data, this rental housing program meets the income threshold to be eligible for the LMI national objective based on 24 CFR 570.208(a)(3) for this program as described below in Table 8.

**Table 8: Multifamily Rental Round 2 Housing Program Tenant File Review**

Project Name	Tenant ID	Unit Number	Unit Type	Number of Total Occupants per Unit	Tenant Total Rent Amount	Tenant Annual Gross Income
Avenue Station	001	101	3 Bedroom	5	\$869	\$37,258
Avenue Station	002	113	1 Bedroom	2	\$775	\$16,800
Avenue Station	003	309	1 Bedroom	1	\$775	\$32,862
Avenue Station	004	411	2 Bedroom	2	\$927	\$40,261
Village at Palm Center	005	0022	2 Bedroom	3	\$904	\$9,000
Village at Palm Center	006	0091	3 Bedroom	4	\$1,108	\$10,572
Village at Palm Center	007	1228	1 Bedroom	1	\$791	\$8,166
Village at Palm Center	008	1317	3 Bedroom	1	\$1,098	\$20,438
Cleme Manor	009	A1-169	1 Bedroom	1	\$604	\$8,820
Cleme Manor	010	B1-059	2 Bedroom	2	\$719	\$14,521
Cleme Manor	011	C7-206	3 Bedroom	4	\$883	\$8,532
Cleme Manor	012	D3-120	4 Bedroom	6	\$1,118	\$8,820

\*Source: HHCD Quarterly Compliance Report (QCR) data for reporting period 9/1/2019-9/30/2019.

In addition to the monitoring file review, HUD conducted interviews with GLO and city

of Houston HCDD staff and management regarding the program policies and procedures used to implement and manage its CDBG-DR programs, including the Multi-family Rental Round 2 Housing Program. HCDD uses various tools to monitor compliance such as its Annual Compliance Review monitoring checklist, Annual Minimum Property Standards Inspection Report (based on compliance of 24 CFR 200.925), Quarterly Compliance Report (QCR) and the city's Compliance Monitoring Report. HUD reviewed QCRs with reporting period of September 1, 2019-September 30, 2019, for all three rental housing projects. The QCR for Avenue Station Apartments featured a random sample selection of six tenant files/units (Units #311, #411, #404, #305, #417 and #205) for inspection and review for compliance of 24 CFR 92.252. In addition, HCDD conducts income verification and recertification reviews for compliance of 24 CFR 570.208(a)(3). HUD also reviewed the Compliance Monitoring Report, MPS Inspection Report and monitoring checklist dated November 27, 2018, for Avenue Station Apartments, which there were no Findings or Concerns.

### **Analysis and Conclusion**

Based on this monitoring review, it was determined that the Multi-family Rental Round 2 Housing Program administered by the city of Houston HCDD is compliant with Federal rules and regulations. As a result, there **are no Findings or Concerns**.

### **Technical Assistance**

HUD provided Technical Assistance with respect to improving current program policies and procedures manual dated February 13, 2014. HUD recommends an expansion of the manual to include guidance regarding the recapture process for duplication of benefits (DOB) verification. The DOB calculation worksheets and checklists should be updated and included in the forthcoming updated program policies and procedures. This expansion should also include instructions indicating how staff must identify and recapture improper payments.

HUD also recommends the city of Houston improve its overall tenant file maintenance and organization by creating and regularly updating the "one-pager" information sheet located in each tenant file. This document should feature key information such as tenant rent adjustments, tenant income updates, issues/concerns, tenant unit transfers/evictions/lease terminations along with status/life changes (marriage/divorce/additional children/death/etc.).

HUD provided additional recommendations such as including a closeout section within the updated program policies and procedures to incorporate the steps for the multifamily rental program CDBG-DR grant closeout processes. During the monitoring visit, HUD also provided CDBG-DR grant closeout process information and documentation to prepare the city for this next step upon the completion of their remaining projects under its Hurricane Ike/Dolly grant programs. HUD notes that the city of Houston created and used detailed checklists for its CDBG-DR programs and tenant files, which would be incorporated into the final closeout section of the updated program policies and procedures as HUD recommended.

### **STATUS OF PREVIOUS MONITORING FINDINGS AND CONCERNS**

The table below lists each of the open Findings and Concerns issued during previous monitoring reviews and is accompanied by descriptive summaries of actions taken or necessary to clear the

## Findings and Concerns.

**Table 9: Open Monitoring Findings and Concerns**

Monitoring Visit	Finding/Concern #	Description	Status
July 2017	Concern #1	Program Income from forthcoming loan repayment is not sufficiently identified or defined by grantee	Closed
July 2017	Concern #2	Recordkeeping is inconsistent regarding the funds that have been loaned to GHA for the Multi-family housing projects.	Closed
June 2018	Finding #3	CDBG-DR contracts not posted on website.	Open
July 2018	Finding #4	Grantee does not comply with 2 CFR 200 Subpart E (Cost Principles) and other Federal and Agency Requirements regarding eligibility of certain grant funded expenditures.	Closed
July 2018	Finding #5	GLO does not have internal controls to ensure grant funds are used in a timely manner.	Closed
July 2018	Finding #6	GLO is not reporting use of grant funds properly in DRGR.	Closed
July 2018	Concern #1	The internal auditor's signed charter and FY2018 plan does not address all requirements as defined by HUD in applicable <i>Federal Register</i> Notices governing the State's CDBG-DR grants.	Closed
May 2019	Finding #2	In accordance with 2 CFR 200.331(b) and (d), GLO has not evaluated, and subsequently monitored, subrecipients with subawards funded under the State's 2015 and 2016 CDBG-DR grants.	Closed
May 2019	Finding #3	The process for an individual to file a complaint or appeal on the State's disaster website is unclear.	Closed
May 2019	Finding #4	DRGR is not accurately reporting expenditures and accomplishments for GLO's Hurricane Harvey grant.	Closed
July 2019	Finding #1	Documentation of the decision-making process described in 24 CFR Part 55	Closed

		was not available for review in the ERR for two (2) infrastructure projects.	
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### **JULY 2017 MONITORING VISIT**

#### **Concern 1: Program Income from forthcoming loan repayment is not sufficiently identified or defined by grantee.**

**Status Update:** The State submitted an updated response to this Concern on February 10, 2020. To date, GLO has executed a no-cost time extension contract for GHA, updated its “Receipt of Program Income Work and Program Income Application to Payables” work procedures, and issued a Technical Guidance Letter (TGL) to the GHA in January 2020 identifying the terms of the loan for the Cedars and Carver Park and Villas on the Strand multifamily properties. HUD determined the updates to the work procedures and issuance of the TGL appropriately identify the program income received from the loan repayment and the terms of the loans. **This Concern has been addressed.**

#### **Concern 2: Recordkeeping is inconsistent regarding the funds that have been loaned to GHA for the Multifamily housing projects.**

The terms and defined use of funds that GLO has loaned to GHA for Multifamily housing projects are inconsistent between various program records and documents.

**Status Update:** GLO submitted non-substantial Action Plan Amendment (APA) 6 to the State of Texas Action Plan for Hurricanes Ike/Dolly on January 31, 2020. Non-substantial APA 6 identifies:

- repayable program funds identified in the GHA contract
- the expected program income to be received from the two developments (Cedars at Carver Park and Villas on the Strand), and
- the application of the obtained program income to mixed-family scattered site projects within the Hurricanes Ike and Dolly CDBG-DR grant.

HUD’s acknowledged and accepted the non-substantial APA 6 on February 5, 2020. GLO has now defined the terms and uses of the funds from the GHA loan repayments. **This Concern has been addressed.**

### **JUNE 2018 MONITORING VISIT**

#### **Finding 3: CDBG-DR contracts not posted on website.**

**Status Update:** According to the State’s response to this Finding on February 10, 2020, the State has:

- Included a hyperlinked and embedded copy of each contract procured directly by GLO within the contract summary report posted for each disaster.
- Included the grant number, as recommended by HUD, on each contract summary report.
- Posted missing subrecipient contract information to the contract summary reports.

- Posted the most current information in the GLO Implementation Manual (Chapter 5 - Procurement) for subrecipients on the GLO Procurement and Contracting Guidance webpage.

GLO's website has improved substantially since the June 2018 monitoring visit. However, as of February 2020, the State's disaster recovery website does not include:

- The State's procurement policies and procedures,
- Copies of expired contracts procured for the 2015 Floods, 2016 Floods and Hurricane Harvey grants, and
- A summary (or a link to the subgrantees' disaster recovery webpages) of all contracts procured by the city of Houston and Harris County for 2015, 2016, and/or 2017 grants that captures the required data included on the HUD contract template report.

**This Finding remains open until the three issues described above are resolved.**

### **JULY 2018 MONITORING VISIT**

**Finding 4:** Grantee does not comply with 2 CFR 200 Subpart E (Cost Principles) and other Federal and Agency Requirements regarding eligibility of certain grant funded expenditures.

**Status Update:** GLO provided HUD with evidence of its reconciliation of funds that had been drawn against the Ike grant and used to fund personnel costs in support of subsequent CDBG-DR appropriations. HUD found that the grantee had corrected the issues that were found during the prior monitoring visit. The reconciliation is supported by a series of DRGR voucher revisions and expenditure adjustments through the grantee's quarterly progress reports. In addition, GLO provided HUD with a demonstration of the reconciliation process during an onsite visit in February 2020. **This Finding is now closed.**

**Finding 5:** GLO does not have internal controls to ensure grant funds are used in a timely manner.

**Status Update:** GLO provided HUD with updated policies and procedures regarding the drawdown of grant funds for personnel costs. The grantee has made great improvements to its process by making periodic reviews and updates to staff time codes, so that each employee is charged as accurately as possible, rather than defaulting to the most active disaster recovery grant. In addition, the State is only charging approximately 80 percent of the personnel costs in order to fund each payroll, and using State funds for the remainder. The remaining funds are only drawn after the grantee has fully reconciled actual time and cost allocations to the appropriate CDBG-DR grant and program area. This reconciliation process has been streamlined so that accurate costs are determined in a matter of weeks instead of months. GLO also provided HUD with a demonstration of its payroll cost allocation process during an onsite visit in February 2020. **This Finding is now closed.**

**Finding 6:** GLO is not reporting use of grant funds properly in DRGR.

**Status Update:** As an additional condition of the issues identified under Finding 4 and 5 (listed above), the grantee was not properly reporting expenditures through the DRGR quarterly progress report (QPR). Now that GLO has developed new procedures to properly allocate personnel costs before they are drawn, and by completing the reconciliation of costs that had been improperly

allocated, the data in DRGR has been adjusted and updated accordingly. GLO provided the reconciliation data and identified QPR adjustments to support the revised figures. **This Finding is now closed.**

**Concern 1:** The internal auditor's signed charter and FY2018 plan does not address all requirements as defined by HUD in applicable *Federal Register* Notices governing the State's CDBG-DR grants.

**Status Update:** On February 10, 2020, the State provided HUD with its FY2020 Annual Internal Audit Plan and Internal Audit Charter which includes the following information on the internal audit function:

- Specifies that the responsible audit staff report directly to the Commissioner and the Chief Clerk.
- Details that the scope of the internal audit's responsibilities includes: both programmatic and financial oversight of all activities conducted by the GLO, including programs that are conducted by the GLO in the capacity of grantee, or pass-through agency for any federal or State grant funds; an evaluation of compliance with applicable laws and regulations, and; assisting in the deterrence, detection, and investigation of fraud, waste, and abuse.
- Outlines the proposal to develop a risk assessment, identify audits resulting from the risk assessment/developed audit plan for CDBG-DR grants and programs, and the execution of the audits.

HUD found the charter and plan sufficient to support compliance with Federal requirements and the internal auditors' role in detecting fraud, waste and abuse. **This Concern has been addressed.**

### **MAY 2019 MONITORING VISIT**

**Finding 2:** In accordance with 2 CFR 200.331(b) and (d), GLO has not evaluated, and subsequently monitored, subrecipients with subawards funded under the State's 2015 and 2016 CDBG-DR grants.

**Status Update:** According to the State's response to this Finding on February 10, 2020, GLO's Community Development and Revitalization's (GLO-CDR) Monitoring and Quality Assurance (M&QA) team updated and completed its risk assessments and FY2019-2020 monitoring plan to include the 2015 and 2016 Flood grants and Hurricane Harvey grants. GLO-CDR performs an annual risk assessment of each grant's active subrecipients based on risk factors identified in Federal regulations, HUD guidance, and audit standards. The monitoring plan, which includes a risk assessment, is used to identify which subrecipients will receive a monitoring review during the fiscal year and to set up a rotational monitoring schedule of all active subrecipients. According to M&QA's tracker spreadsheet, the State has conducted over 25 monitoring reviews, since April 2018, of its 2008-2017 CDBG-DR grant subrecipients and vendors to ensure compliance with Federal and State requirements.

Furthermore, since HUD's April 29-May 3, 2019, monitoring visit, the GLO identified over 60 subrecipients (46 subrecipients with a 2015 Floods grant, 13 subrecipients with a 2016 Floods grant, and two subrecipients with a 2017 Hurricane Harvey grant) as slow-spenders due to slow expenditure rates and/or lack of performance based on established milestones outlined in the



subrecipient contract. Each subrecipient was issued a timely expenditure letters requiring a response that identified a plan and timeline for completing contract program activities within the contract term. HUD reviewed all supporting documents received from the State in response to this Finding and determined the documents support closure of this Finding. **Therefore, this Finding is now closed.**

**Finding 3: The process for an individual to file a complaint or appeal on the State’s disaster website is unclear.**

**Status Update:** According to the State’s response on February 10, 2020, CDR’s Customer Relations team began working with the Website Administrator and Communications/Compliance team to ensure the Appeals/Complaints process was easily accessible on the State’s disaster recovery website at [www.recovery.texas.gov](http://www.recovery.texas.gov). Updates to the website include:

- Ensuring the Appeals and Complaints process is clearly posted on the “Contact Us” tab at the top of each webpage to facilitate the public’s ability to submit directly online, via email or mail, or by phone directly to the GLO.
- Reconfiguring the website to reflect “Appeals and Complaints” and “Report Fraud/Waste/Abuse” tabs at the bottom of each webpage and including the online appeals/complaint form, the link to the main Appeals/Complaints process page, and information on methods to report Fraud, Waste or Abuse to the GLO.

Additionally, the Customer Relations team developed a formal complaints and appeals tracking process that includes standardized reporting metrics based on input from GLO’s Executive Team. The Customer Relations Statistic Reports are generated on a weekly and monthly basis and include data on the volume of phone calls, online submissions, and emails, types of concerns and by department/program area. Trends are identified and vendor performance is monitored through this information. GLO’s complaint process is not limited to GLO-CDR programs, however, the State’s website encourages citizens with program-related complaints to initially contact their local jurisdiction (city, county, public housing authority, council of governments, (COG) or vendor) in accordance with its local policies and procedures for customer complaints.

HUD reviewed the State’s disaster website and all supporting documents received from the State in response to this Finding. The supporting documents support closure of this Finding. **This Finding is now closed.**

**Finding 4: DRGR is not accurately reporting expenditures and accomplishments for GLO’s Hurricane Harvey grant.**

**Status Update:** According to the State’s response on February 10, 2020, and additional DRGR revised voucher detail provided via email on February 27, 2020, GLO has completed revisions for Hurricane Harvey HAP vendor and builder DRGR vouchers that were previously drawn from its administration activity in DRGR and GLO’s HAP policies and procedures have been updated to clarify its process for reporting of beneficiaries in each QPR.

HUD was able to verify GLO created DRGR activities for HAP, identified by Council of Government award recipient and National Objective. The activities are fully budgeted in DRGR for the total Action Plan budget of the program. HAP vouchers previously drawn against the GLO’s

Hurricane Harvey administration activity budget, 15 vouchers totaling approximately \$8,009,762.23, were revised and costs were drawn against HAP activities setup and approved by HUD in DRGR. GLO provided HUD with a spreadsheet identifying each voucher revision for HUD to confirm DRGR accurately reflects financial draws for HAP.

After reviewing updated HAP policies and procedures, HUD confirmed HAP performance data in DRGR followed written guidance and was reported accurately. According to GLO, the number of homes that completed file closeout as of Quarter 4 2019 was zero and six homes had completed closeout as of January 29, 2020, which will be reflected in the Quarter 1 2020 QPR. As additional homes complete closeout, those numbers will be reported in the applicable quarter of completion.

HUD reviewed all supporting documents received from the State in response to this Finding and determined the documents support closure of this Finding. **This Finding is now closed.**

### **JULY 2019 MONITORING VISIT (HARRIS COUNTY)**

**Finding 1:** Documentation of the decision-making process described in 24 CFR Part 55 was not available for review in the ERR for two infrastructure projects.

**Status Update:** In lieu of the eight-step process, Harris County Community Services Department (HCCSD) staff requested that the Harris County Flood Control District record a deed covenant that restricts the land use of the affected portion of the property that is within the floodplain for floodplain management/ improvement, and prohibiting residential, commercial and industrial development in perpetuity. Once the deed has been recorded, the project may proceed. HUD Office of Environment and Energy staff agreed with the revised corrective action and requested a copy of the deed to be included in the ERR file.

HUD OEE staff received copies of the deed documentation for applicable projects on September 6, 2019, and September 20, 2019, from the HCCSD which included restrictive covenants for the CDBG-DR basins projects. HUD reviewed of all supporting documents received from Harris County and the State in response to this Finding. **This Finding is now closed.**