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SUBJECT: The Texas Department of Housing and Community Affairs Properly
Administered Supplemental I Disaster Recovery Program Funds

HIGHLIGHTS

What We Audited and Why

We audited the U. S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG), Supplemental I Disaster Recovery program, administered by the Texas Department of Housing and Community Affairs (Department). We performed the audit as part of the Office of Inspector General's commitment to HUD to implement oversight of the Disaster Recovery funds to prevent fraud, waste, and abuse and duplication of benefits. Our objective was to determine whether the Department administered Supplemental I Disaster Recovery funds (funds) in compliance with the supplemental appropriation's *Federal Register* requirements, HUD's policies, and the State of Texas' (State) Disaster Recovery action plan.

What We Found

The Department administered the funds in compliance with requirements. The funds were accounted for and were used for eligible program applicants and projects that met national program objectives.

What We Recommend

This report does not contain any recommendations as it contains no findings.

Auditee's Response

We provided an initial draft report to the Department on December 17, 2008, and held an exit conference on December 29, 2008. Following some minor clarifications, we provided a revised draft on January 7, 2009. The Department agreed with the report and decided not to provide a written response.

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BACKGROUND AND OBJECTIVE

On September 24, 2005, the Federal Emergency Management Agency (FEMA) declared 29 State of Texas (State) counties disaster areas as a result of Hurricane Rita. The disaster declaration allowed those counties to receive federal aid from FEMA, the Small Business Administration, and the U. S. Army Corp of Engineers.

In addition, to assist with Hurricane Katrina, Rita and Wilma recovery efforts, Congress appropriated \$16.7 billion in Disaster Recovery funding (funds) to the U. S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program to assist impacted communities. Of that amount, Texas received \$503 million to address areas most impacted by Hurricane Rita. The funds were allocated in two supplemental appropriations that were distributed under two disaster action plans. The State was allocated \$74.5 million under Public Law 109-148 (Supplemental I) and an additional \$428.67 million under Public Law 109-234 (Supplemental II).

To aid in fund distribution, the governor of Texas selected the Texas Department of Housing and Community Affairs (Department) as the lead agency. Established in 1991, the Department is the State's primary agency to provide for the essential public service and housing needs of extremely low- to moderate-income individuals and families in Texas. The Department and the Office of Rural and Community Affairs (ORCA) jointly administered the funds, the primary objective of which is to provide funding for unmet housing, infrastructure, public service, public facilities, and business needs in areas of concentrated distress in the 29-county area directly impacted by Hurricane Rita.

To expedite delivery of aid, the Department partitioned the funds between the State's regional councils of government¹ (council) and ORCA, based on FEMA's damage assessment. The Department decided that those entities were better informed on their regions' needs, experienced in managing CDBG funds, and structured to coordinate with the State's efforts for long-term recovery. However, the Department, as the State's representative, maintained overall responsibility over the funds' use. As the following table shows, since February 2006, the Department and ORCA have funded approximately \$73 million of the budgeted funds.

	Projects	Budget	Funded	Balance
Department	450	\$42,378,185	\$41,341,850	\$1,036,335
ORCA	93	32,144,815	31,525,863	618,952
Totals	543	\$74,523,000	\$72,867,713	\$1,655,287

Our objective was to determine whether the Department administered Supplemental I Disaster Recovery funds for their intended purpose as prescribed by the supplemental appropriation's *Federal Register* requirements, HUD's policies, and the State's Disaster Recovery action plan.

¹ The councils are voluntary associations of local governments, the purpose of which is to solve area wide problems for their respective region. Texas is divided into 24 regional councils, four of which were affected by Hurricane Rita.

RESULTS OF AUDIT

The Texas Department of Housing and Community Affairs Properly Administered the Supplemental I Disaster Recovery Funds

The Department and ORCA generally administered the Supplemental I Disaster Recovery funds in compliance with the supplemental appropriation's *Federal Register* requirements, HUD policies, and the State's action plan. They used the Disaster Recovery funds for eligible applicants and projects that met national program objectives and ensured that the funds were properly accounted for and used for the program.

The State Properly Funded Disaster Recovery Projects

A review of 16 projects, totaling more than \$4.3 million that the State funded with Disaster Recovery funds, found no evidence that the recipients or the projects were ineligible. The 11 housing projects reviewed included the following types of projects:

- Housing reconstruction,
- Housing rehabilitation,
- Manufactured housing units, and
- Housing elevation – flood mitigation.

The five infrastructure projects included the following types of projects:

- Road repair,
- Bridge repair,
- Emergency power generators,
- Debris removal,
- Repair to emergency services, and
- Public facilities

The Department and ORCA provided sufficient support that the projects' funds were properly accounted for and used for their intended purposes. The following table shows the status of the 16 projects as of August 2008.

	Projects	Budget	Funded	% complete
Department	11	\$ 862,294	\$ 581,944	67%
ORCA	5	3,450,000	2,698,962	78%
Totals	16	\$4,312,294	\$3,280,906	76%

The Department Properly Administered the Funds

The Department is responsible for administering the funds and ensuring that they were used for their intended purpose. It partitioned the funds based on the level of damage assessed by FEMA, among the three eligible councils² responsible for the 22 affected counties. Testing of the 11 housing projects disclosed that the councils developed a method of distribution that assisted eligible applicants and that the Department, in coordination with the councils, maintained oversight of the funds to ensure that eligible applicants received housing assistance as required by the *Federal Register*, HUD's policies, and the State's disaster recovery action plan.

Fieldwork at the South East Texas Regional Planning Commission (Commission) council disclosed that the reconstruction and rehabilitation projects appeared to be commensurate with the cost paid (see photograph below).



Recipient home - Port Arthur, Texas

As the following picture shows, the State's efforts to mitigate future hurricane housing damage appeared effective. The pictured home, designed and constructed to withstand flood and wind damage, survived Hurricane Ike in October 2008.

² Three council regions were deemed eligible to receive individual assistance by FEMA: The Commission, Deep East Texas Council of Government, and Houston-Galveston Area Council.



Elevation project, Sabine Pass, Texas – Although the area flooded, the home was not damaged because it was elevated.

For the 11 reviewed projects, the Department provided assistance to low- to moderate-income families by reconstructing or rehabilitating their homes or replacing them with manufactured housing units.

ORCA Properly Administered the Funds

ORCA's objective is to assist the 27 affected counties with nonhousing recovery needs in the areas most impacted by Hurricane Rita. The five nonhousing projects tested included debris removal, road repair, bridge repair, flood mitigation, utility service repair, and emergency power generating units for medical facilities and utility companies. ORCA provided sufficient evidence to support the applicants' and projects' eligibility. In addition, its disbursements of more than \$3.45 million for the projects were adequately controlled to ensure that funds were used for their intended purpose.

For two of the five projects tested, the local government used the funds to purchase generators to provide emergency electrical power. ORCA's efforts appear to have been effective, as the grants for emergency power generators to the City of Nederland and the Tyler County Hospital, pictured below, allowed operations to continue during Hurricane Ike.



Tyler County Hospital – 900-kilowatt generator allowed the hospital to remain open during widespread power outages.

Conclusion

The Department administered the Supplemental I Disaster Recovery funds, authorized under Public Law 109-148, in accordance with *Federal Register* requirements, HUD policies, and the State's Disaster Recovery action plan.

SCOPE AND METHODOLOGY

We performed our audit at the Department and ORCA offices located in Austin, Texas, and at the Commission office located in Beaumont, Texas. Our audit generally covered the period February 2006 through July 2008. We expanded the review period as needed. To accomplish our objective, we

- Gained an understanding of the CDBG program requirements by reviewing applicable HUD regulations, waivers, notices, and legislation.
- Reviewed the Department's, ORCA's, and the Commission's policies and procedures to gain an understanding of the organization's accounting controls, procurement practices, and monitoring policies.
- Reviewed the latest internal auditor's report, State audit report, and internal and HUD monitoring reviews to identify problem areas that might require attention.
- Identified and tested relevant internal controls that the Department, ORCA, and the Commission had implemented regarding their management, accounting, and data processes.
- Identified, quantified, and assessed the level of risks for key financial transactions and verified that the Department and ORCA properly accounted for funds use through the Disaster Relief Grant Reporting information system.
- Identified the total Disaster Recovery funding invested by HUD and funding disbursed by the Department and ORCA, and documented the list of program activities covering the audit period. We selected a nonrepresentative sample for testing, focusing on the two entities that received the largest grants under Supplemental I.
- Tested Department and ORCA's expenditures of program funds for eligibility and sufficiency of supporting documentation.
- Reviewed and tested a nonrepresentative sample of 16 project files.
- Conducted a site visit at 11 Department projects located in the following Texas cities: Beaumont, Port Arthur, Orange, Vidor, Fannett, and Sabine Pass.

We performed the audit from July through November 2008. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

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

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

Relevant Internal Controls

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

- Funding and award process,
- Disbursement and expenditure process,
- Monitoring process, and
- Fraud prevention and detection policies and procedures.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

We did not identify any significant weaknesses in the controls cited above.