



DEPARTMENT OF HEALTH & HUMAN SERVICES
Administration for Children and Families
Office of Community Services

Community Services Block Grant

STATE OF TEXAS

On-Site Review

FINAL

FEBRUARY 29 – MARCH 4, 2016

State of Texas Community Services Block Grant

I. Executive Summary

BACKGROUND

The Community Services Block Grant (CSBG) provides assistance to states and local communities working through a network of Community Action Agencies (CAAs) and other neighborhood-based organizations for the reduction of poverty – hereinafter referred to as eligible entities, the revitalization of low-income communities, and the empowerment of low-income families and individuals to become fully self-sufficient. CSBG-funded activities create, coordinate, and deliver a broad array of services to low-income Americans. The grant’s purpose is to fund initiatives to change conditions that perpetuate poverty, especially unemployment, inadequate housing, poor nutrition, and lack of educational opportunity.

The Governor of Texas designated the State of Texas Department of Housing and Community Affairs (TDHCA) as the appropriate lead agency for the administration of CSBG. The State of Texas CSBG provides funding, technical assistance, and support to CSBG projects of eligible entities. Together, the agencies provide an array of services within the State of Texas to address local area needs. Services may include housing, energy assistance, nutrition, employment, and training, as well as transportation, family development, child care, health care, emergency food and shelter, domestic violence prevention services, money management, and micro-business development.

The information contained in this report was compiled during a State Assessment (SA) of Texas CSBG and its eligible entities as evaluated by federal staff of the Division of Community Assistance (DCA) in the Office of Community Services (OCS), an office within the Administration for Children and Families (ACF), U.S. Department of Health and Human Services (HHS).

STATE ASSESSMENT AUTHORITY

SA’s are conducted to examine the implementation, performance, compliance, and outcomes of a state’s CSBG and to certify that the state is adhering to the provisions set forth in Title II – Community Services, of the Coats Human Services Reauthorization Act, Public Law 105-285 (Section 678B(c)). As per the CSBG statute, the SA examines the state and its eligible entities assurances of program, fiscal and governance operations, as well as the state’s oversight procedures for its eligible entities.

SCOPE OF REVIEW

OCS federal staff conducted the on-site review of the TDHCA’s CSBG and its eligible entities from February 29, 2015, to March 4, 2016. The periods reviewed included federal Fiscal Years (FY) 2014 and 2015.

METHODOLOGY

OCS reviewed documented procedures and practices for administrative, fiscal, and program operations, and interviewed the TDHCA's officials responsible for administering CSBG.

OCS reviewers:

- Evaluated compliance of state-level assurances, administrative, fiscal, program, and governance requirements.
- Evaluated the state's monitoring procedures and practices to determine eligible entities' compliance with the state-level assurances.

II. State of Texas State Assessment Finding and Recommendations

OCS identified an area for improvement in State of Texas' CSBG fiscal operations and one recommended area for review in program operations.

FINDING ONE – FISCAL OPERATIONS

Section 678D and 45 C.F.R. § 96.30(a) require states to maintain fiscal control and accounting procedures. Except where otherwise required by federal law or regulation, a state shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to; (a) permit preparation of reports required by the statute, and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

Finding:

TDHCA submitted their annual and final FY 2014 Federal Financial Reports (FFR) in OLDC, as required. The 2014 annual FFR was not properly noted as final and was not accurate.

Required Action:

TDHCA must amend the 2014 final FFR. The amended final FFR must contain the complete report type information, found in block #6, and the correct federal share of expenditures, found on lines 10e; the reported totals should reconcile to the state's accounting records and the drawdown amounts in the Payment Management System (PMS).

TDHCA Response:

The Department has amended the final FFR as instructed in the letter. The corrected totals reconcile with the state accounting records and the drawdown amounts in the Payment Management System.

TDHCA Planned Action:

No further action is needed as the final FFR has already been amended and additional controls have been put in place to ensure accuracy and compliance in the future.

OCS Response:

OCS has determined TDHCA response is sufficient to satisfy the finding and concurs with the action taken. Finding One is considered closed.

FINDING TWO – FISCAL OPERATIONS

Prior to OCS fieldwork, an eligible entity had misappropriated federal funds from multiple sources including CSBG. This entity had subsequently relinquished their CSBG status. As of the date of our fieldwork, several key employees at the agency had been indicted on fraud-related charges.

Finding:

TDHCA did not notify the regional office of the Inspector General (OIG), as required by block grant rules at 45 CFR 96.33, of the suspected fraud by employees of an eligible entity. The suspected fraud by two employees, involving multiple funding sources including CSBG, was initially reported by the external auditor for the entity, including an amount of known questioned costs. 45 CFR 96.33 indicates that state or tribal officials who have information indicating the commission or potential commission of fraud or other offenses against the United States involving block grant funds should promptly provide the information to the appropriate Regional Office of Investigations of the Department's Office of the Inspector General.

Required Action:

TDHCA, as part of their single audit requirements as a pass-through entity, is required to resolve the issue and remit misappropriated funds to the US Treasury. Upon completion of this, provide evidence to support that the funds have been properly restored.

TDHCA Response:

TDHCA did not notify the Regional Officer of the Inspector General (“OIG”) as required by block grant rules of the suspected fraud by employees of an eligible entity. As part of their single-audit requirements as a pass-through entity, TDHCA is required to resolve the issue and remit misappropriated funds to the US Treasury. Upon completion of this, provide evidence to support that the funds have been properly restored.

TDHCA apologizes for any deficiencies in its communication with HHS OIG on this matter. Prior to the 2016 site visit by HHS staff, the Department had more broadly construed the requirements of 45 CFR §96.33 as to which offices were expected to be contacted. On March 20, 2014, Department staff was informed by an adjacent community action agency, in what appeared to be an unsubstantiated rumor, that the Federal Bureau of Investigation (“FBI”) was investigating possible embezzlement at Northeast Texas Opportunities Inc. (“NETO”). On March 21, 2014, the Department's Executive Director notified the Texas State Auditor's office by email and regular mail and the Dallas Office of the Federal Bureau of Investigation by phone to make them aware of our oversight of the CSBG contract with NETO so that if they were, in fact, engaging in any such investigation they could utilize the Department as a resource. Though the Department had notified its State Auditor and contacted the FBI about the rumor, it had not notified HHS OIG.

Coinciding with OCS' site visit to the Department in February /March 2016, the FBI released indictments of several employees at NETO. During the two-year intervening period, the Department was not informed of specific findings of embezzlement or similar activity by the

FBI. The Department first learned of these indictments from the OCS fiscal staff who were on site, conducting the site visit in Austin.

Since receiving January 30, 2018, letter staff has had discussions with OCS to understand their expectations of notifications. The Department now understands that OCS expects to be advised of any issue relating to any disallowed amount not timely repaid, regardless of whether there is documentation to support actual legal fraud, waste, or abuse.

As it relates to the remittance of misappropriated funds, the Department is actively working with our State's Attorney General to pursue collections of costs disallowed by the Department that were not timely repaid.

TDHCA Planned Action:

The Department now understands that an additional contact to the Regional Office of Investigations of the Department's Office of Inspector General is required and will be made in the future. The Department will continue to pursue all available and appropriate means to collect disallowed costs.

OCS Response:

OCS concurs, in part, with the response of TDHCA. NETO's fiscal year-end 2013 Single Audit report (report) was completed, and made available in the Federal Audit Clearinghouse, in July of 2014. TDHCA is required, as the pass through for federal awards, to review the single audit. The report includes a representation of known questioned costs, by program including CSBG, due to the misappropriation. The allegations of fraud were reported in three (3) critical financial areas of the report: 1) the statement of financial position, 2) the notes to the financial statement and 3) compliance with major federal programs. OCS will keep this finding open until TDHCA provides OCS with a summary of the final disposition of the misappropriated funds, including details on remittances to the U.S. Treasury. Finding Two remains open until the misappropriated federal funds have been paid in full.

**OBSERVATION ONE
RECOMMENDATION – PROGRAM OPERATIONS**

Issue: The low-income community that was being served by the eligible entity that relinquished its CSBG designation mentioned in Finding Two did not have appropriate mechanisms in place to continue serving the intended community for an extended period. Subsequent to OCS fieldwork, an entity had been selected to provide temporary services while TDHCA searched for a permanent entity. TDHCA consulted with OCS on the process to provide temporary services and the process for a permanent selection. No further required action is necessary for temporary services.

Recommended Action:

TDHCA may want to consider updating its procedures to assure that low-income community needs are addressed as soon as possible when an eligible entity is temporarily or permanently unable to provide services. OCS will provide consultation and technical support for this development as necessary.

TDHCA Response:

This finding relates to OCS's concern over the lack of service delivery in Dallas County while the Department was working through the IM-116 process to address significant and ongoing issues with the eligible entity at the time (the Urban League of Greater Dallas ("ULGD")). The Department recognizes the need for services to the low-income community. The extensive process required by the CSBG Act and HHS to remove a non-performing eligible entity, and lack of clear direct feedback from HHS when asked for guidance in this regard, did, in fact, create a gap in service provision. This was exacerbated because once the department was in a position to identify a replacement, the two adjacent eligible entities were not in a position to augment their areas by adding Dallas County: one, a unit of local government, was not permitted to exceed its political jurisdiction, and the other did not have the capacity to increase its programs and budget by the \$3 million associated with Dallas County's CSBG allocation. Once a request for applications was released, there was no initial response and it took several re-releases to obtain submissions. While the Department recognizes the need for a quicker response in similar situations, it is limited as to how much control it has over both the IM-116 process and any nonprofit organizational response. We would note that in other cases over the last several years in which this type of situation arose, the Department successfully and quickly covered areas in need of service with adjacent providers in order to ensure continuity of services. Unfortunately, in one of the largest metropolitan areas in the country, such a solution was not as readily available.

TDHCA Response:

TDHCA will continue its strategy of promptly considering adjacent providers in order to ensure continuity of services and pursuing alternate replacements when adjacent providers are not a possibility. Since that monitoring, a qualified eligible entity has been procured and designated in Dallas County.

OCS Response:

TDCHA has informed OCS they have a process in place for procuring a designated provider to render services to low-income communities when an eligible entity is unable to provide services as required by the CSBG Act. Accordingly, OCS considers this observation addressed and has no further corrective action recommendations at this time.

III. Texas State Assessment

ADMINISTRATIVE OPERATIONS

Administrative and Discretionary Use of Funds

Section 675C(2) Administrative Cap – No state may spend more than the greater of \$55,000, or five percent, of the grant for administrative activities, including monitoring activities. Funds to be spent for such expenses shall be taken from the portion of the grant after the state makes grants to eligible entities. Section 675C(b)(1) Use of the Remainder – the state shall use the remainder of the grant or allotment received for discretionary purposes.

Administrative Funds

According to TDHCA’s State Plan, administrative funds were allocated to support administrative and monitoring activities. OCS generated a sample of incurred administrative expenditures totaling \$28,454.32, and found the expenditures were charged for payroll, rental space, computer software, and travel expenses. OCS concluded the administrative expenditures reviewed were supported with eligible program expenses and allowed for the traceability of the CSBG funds.

Discretionary Funds

TDHCA allocates discretionary funds to support special innovation, demonstration projects, deployment of statewide initiatives and provides training and technical assistance to staff. TDHCA reported spending a total of \$925,097.66 on discretionary projects. OCS selected samples of discretionary incurred expenses, from the selection of the expenses reviewed, OCS found no instances of questioned costs and noted no issues.

Community Action Plan and Community Needs Assessment

Section 676(11) requires the state to secure a Community Action Plan that includes a Community Needs Assessment for the community served from each eligible entity, which may be coordinated with community needs assessments conducted for other programs.

TDHCA requires eligible entities to submit a Community Needs Assessment at least every three years. TDHCA encourages eligible entities to report on significant changes and successes of their communities. OCS selected three (3) agencies’ Community Action Plans under the period of performance to assess whether agencies were reporting on their community needs. Of the three agencies reviewed, OCS concluded TDHCA has controls in place to ensure community needs are being addressed and served as prescribed by §676(11).

Monitoring Eligible Entities

Section 678B(a) of the CSBG Act requires states to monitor local agencies to determine whether they meet performance goals, administrative standards, and financial management requirements, as well as other requirements of the state. The state shall conduct the following reviews of eligible entities: 1) full onsite review of each entity at least once during a three-year period, 2) onsite review of each newly designated entity immediately after completion of the first year in which the entity

received CSBG funds; 3) follow-up reviews to eligible entities that fail to meet the goals, standards, requirements established by the state; and 4) other reviews as appropriate, including reviews of entities with programs that have had other federal, state, or local grants terminated for cause. The State Plan called for providing federal financial assistance to forty-three (43) agencies. TDHCA maintains written compliance monitoring standards that are integrated by the staff and are readily used throughout the network of eligible entities. OCS observed where TDHCA has two (2) assigned offices responsible for monitoring the forty-three (43) eligible entities. OCS noted both monitoring offices use a risk-based assessment tool to evaluate which entities performance prior to an on-site review. OCS noted TDHCA is in compliance with state and federal requirements, and the state does conduct monitoring reviews, at a minimum every two years.

In addition, OCS examined TDHCA's monitoring schedule and obtain copies of three (3) monitoring reports under the review period. TDHCA's monitoring and supporting documentation appears complete and in compliance with the CSBG Act.

Training and Technical Assistance

Section 675C(b)(1)(A) allows states to use CSBG funds to provide T/TA to those entities in need of such training and assistance. Section 678C(a)(3) indicates states shall offer T/TA if appropriate to help correct eligible entities deficiencies.

OCS observed during the period of performance of the grant, TDCHA did allocate funds and resources to provide training and technical T/TA assistance to several eligible entities. OCS noted TDHCA offered an array of T/TA such as webinars, workshops or regional training events. OCS found specialized training was conducted to assist with addressing and correcting deficiencies with single audit findings, board compositions, along with service-level data reporting.

Corrective Action, Termination, and Reduction of Funding

Section 678C states that if the state determines, on the basis of a final decision that an eligible entity fails to comply with the terms of an agreement, or the state plan, to provide services ... or to meet appropriate standards, goals, and other requirements established by the state, the state shall:

- (1) inform the entity of the deficiency to be corrected;
- (2) require the entity to correct the deficiency;
- (3) (A) offer training and technical assistance, if appropriate to help correct the deficiency, and prepare and submit to the Secretary a report describing the training and technical assistance offered,
 - (B) if the state determines that such training and technical assistance are not appropriate, prepare and submit to the Secretary a report stating the reasons for the determination.

In accordance with the administrative code, TDHCA may carry out appropriate sanctions to remediate or terminate agreements, in the event, that an eligible entity is determined in noncompliance with state or federal requirements. Based on the supporting information reviewed, TDHCA is materially compliant with the termination or reduction requirements of Section 676(c).

FINANCIAL OPERATIONS

Fiscal Controls

45 C.F.R. § 96.30(a) require states to maintain fiscal control and accounting procedures. Except where otherwise required by federal law or regulation, a state shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to; (a) permit preparation of reports required by the statute, and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

TDHCA uses PeopleSoft (Oracle) as the financial and accounting system of record. OCS found Oracle was transparent in tracing to a level of expenditure to CSBG funds. TDHCA has formalized procedures for fiscal controls and established a web portal whereby both the state and eligible entities can access.

For the 2014 CSBG award, TDHCA received a total of \$31,980.49 in grant funds. OCS found TDHCA did expend the CSBG funds on the program, administrative, and discretionary activities. A non-statistical sample of five (5) disbursement payments from Oracle was generated by OCS totaling \$363,101.74. Of the five (5) payments examined, OCS found no instances of questioned costs. OCS concluded the payments reviewed were eligible and not used in violation of the CSBG requirements.

Federal Financial Report

45 CFR §92.40, §92.41, and §96.30(a), respectively, require that after the close of each statutory period for the obligation of block grant funds and the expenditure of block grants, each grantee shall report to the Department a financial summary using OMB Standard Form 425 - FFR. Grantees are required to submit the information on the FFRs within 90 days of the close of the applicable statutory grant periods. Fiscal control and accounting procedures must be in place to permit the preparation of the FFR's and the tracing of federal funds to a level of expenditure adequate to establish that funds have not been used in violation of the restrictions and prohibitions of the statute.

OCS found one instance of noncompliance over federal reporting for TDHCA. Details associated with this one exception are noted in the section identified as Findings and Recommendations.

State Carryover Requirements

Under the terms and conditions of the federal grant award Grantees shall adhere to a provision of law under the Consolidated Appropriations Act of 2015 which requires that to the extent CSBG funds are distributed by a state to an eligible entity, and have not been expended by such eligible entity, they shall remain with such eligible entity for carryover and expenditure into the next fiscal year. If CSBG funds are carried forward by such eligible entity into the next fiscal year, those funds must be fully expended and services provided on or before September 30.

According to the State Plan, provisions are in place to carryover any unspent funds to the next fiscal year. For FY 2014, TDHCA had a carryover balance of \$410,000. OCS noted where the unspent

funds were carried forward for eligible entity activities and were expended in the appropriate period.

Single Audits

As required by 2 CFR §200.501 of the Uniform Guidance and 45 CFR Part 75 Subpart F A non-federal entity that expends \$750,000 or more during the non-federal entity's fiscal year in federal awards must have a single audit conducted in accordance with the §200.514 scope of the audit.

State Single Audit

OCS reviewers found TDHCA did upload the Single Audit reports (A-133) from the two most recently completed fiscal years to the Federal Audit Clearinghouse; and no issues were noted in accordance with the Office of Management and Budget Circular A-133, Audits of State, Local Government, and Non-Profit Organizations.

State Monitoring – Eligible Entity Compliance – Single Audit

TDHCA has implemented uniform Grant Management Standards (UGMS) to address audit readiness and findings. OCS found TDHCA has a stand-alone single audit tracking tool to record the timeliness of an eligible entity's single audit (report). During fieldwork testing, OCS observed where twelve (12) eligible entities' reports had been delinquent during the period of 2014 CSBG award. Upon examining their single audit tool, OCS reviewed TDHCA's audit readiness process and determined the 12 entities' single audit issues were addressed. Overall, TDHCA has taken steps to monitor their eligible entities' single audits and corrective actions.

PROGRAM OPERATIONS

Use of Ninety (90%) Percent of Funds

Per Section 672, the purpose and goals of the CSBG is to provide assistance to states and local communities working through a network of eligible entities, for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient. Section 675 requires that not less than 90 percent of the funds made available to a state shall be used by the state to make grants for the purposes described in Section 672 to eligible entities.

In accordance with Section 672, TDHCA reported providing services to low-income individuals, families, and communities. TDHCA's accounting system for fiscal year ending 2014 revealed 97%, or \$30,862.749.26, of CSBG funds were made available and disbursed to forty-three (43) CSBG eligible entities.

Tripartite Boards

Section 676B requires that members are chosen in accordance with democratic selection procedures to assure that the Tripartite Board is an equal representation of the community: not less than one-third of its members are representatives of low-income individuals and families who reside in the neighborhoods served; one-third of the members of the Board are elected public officials; and the remaining members are official or members of business, industry, labor, religious, law enforcement,

education, or other major groups interested in the community served. Members must actively participate in the planning, implementation, and evaluation of the program that services their low-income communities.

TDHCA adopts the CSBG requirement to assure eligible entities adhere to CSBG's Tripartite Board regulations. TDHCA has controls in place to identify when exceptions occur with the board composition of their entities. OCS found TDHCA enforces board members to participate actively in the planning, implementation, and evaluation of the program that services their low-income communities. For instance, the state requires newly elected CSBG board members to receive within 90 days of joining the board, training on the governance of open records and meetings laws.

ROMA System and Annual Reporting

According to Section 678E(1) and 678E(2), each state that received funds shall participate in a performance measurement system and ensure that all eligible entities in the state participate to the extent in which programs are implemented in a manner that achieve positive results for the communities served. States may participate in the model evaluation system designed by OCS in consultation with the CSBG Network called ROMA. Alternatively, states may design their own similar system.

TDHCA does participate in the Results-Oriented Management and Accountability (ROMA) System reporting and formal processes are established for the eligible entity to report timely and accurately on performance outcome results. OCS observed TDHCA has controls in place to evaluate their entities reporting of the National Performance Indicators, and no instances of incompleteness over ROMA reporting. Overall, TDHCA has adequate controls in place to identify an entity's expected results for which the entity served.

Section 678E (2) requires that each state shall annually prepare and submit to the Secretary a report on the measured performance of the state and the eligible entities in the state. The report should describe how the state and the eligible entities met its goals and objectives, as well as provide information on the types of projects supported with FY14 CSBG funds. The Annual Report must contain performance data that address the implementation of the national goals and measures.

During fieldwork testing, OCS noted TDHCA did prepare the annual reports and submit timely for the CSBG award under review. No issues were noted.

Limitation on Use of Funds

Per Section 678F, grants may not be used by the state or by any other person ... for the purchase of improvement of land, or the purchase, construction, or permanent improvement of any building or other facility.

OCS conducted interviews with key officials about the use of CSBG funds; along with conducting a cursory review of accounting, records to assess whether funds were allocated to CSBG related poverty level or non-construction activities. OCS found no instances where TDHCA misallocated funds or violated the CSBG requirements.

Child Support Services

Section 678G(b) states that during each fiscal year for which an eligible entity receives a grant such entity shall: (1) inform custodial parents in single-parent families that participate in programs, activities, or services ... about the availability of child support services; and (2) refer eligible parents to the child support offices of State and local governments.

OCS observed where TDHCA's monitoring procedures are descriptive of child support service. Specifically, the reviewers noted TDHCA provides assurances for collecting data on eligibility assessments of child support services. OCS determined TDHCA has adequate controls to identify areas of noncompliance over child support services.

IV. Conclusion

This report is considered final. We would like to thank you, the staff, and the eligible entities visited for their cooperation and assistance during the State Assessment of Texas. OCS considers Finding One and Observation One closed with no further action required. Finding Two remains open until the misappropriated federal funds have been paid in full. OCS staff are available for consultation and technical assistance to help DHS address the issue in a corrective action plan.

If you have any questions or concerns, please contact:

David Barrie
Financial Operations and Accountability Branch Chief
Division of Community Assistance
Telephone: (202) 205-3589
Fax: (202) 401-4694
Email: David.Barrie@acf.hhs.gov

Correspondence may be sent to:
David Barrie
Financial Operations and Accountability Branch Chief
Administration for Children and Families
Office of Community Services
Division of Community Assistance
330 C Street, S.W., Mail Room 5425
Washington D.C. 20201

APPENDIX

Appendix I

Report Contributors

State Staff: Timothy Irvine
Michael DeYoung

State Eligible Entities: Brazos Valley Community Action
Williamson County-Burnet County Opportunities, Inc.
Gulf Coast Community Action Council, Inc.

OCS Staff: Seth Hassett
David Barrie
Elisha Anderson
Yolanda Brown
Norris Phillip
