



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

**REPORT ON THE AUDIT OF THE
PROGRAM CASH MANAGEMENT FOR
FEMA INDIVIDUAL ASSISTANCE PROGRAMS**

MAY 2020

OVERALL CONCLUSION

The Community Development and Revitalization (CDR) program has established policies and Standard Operating Guidelines (SOG) for governing the administration, cash management, and monitoring operations of the Direct Assistance for Limited Home Repair (DALHR) and Manufactured Housing Units and Recreational Vehicles (MHU-RV) programs. Each program generally provided reasonable assurance of compliance with federal and state laws and regulations, as well as with agency financial policies. The Federal Finance section of the Financial Management division has developed procedures and tools for processing disbursements, requesting reimbursements from the Federal Emergency Management Agency (FEMA), and the tracking of cash flows.

While there are controls in place, the audit identified gaps in policies and procedures that contributed to control weaknesses in both the design and effectiveness of operations. There were areas in which policies and procedures should be revised and adopted to improve controls in the design, operations, and reporting effectiveness for the cash management of the FEMA administered programs. Specifically, the areas identified are associated with:

1. Adopting and revising agency and program standard operating guidelines for cash management processes
2. The tracking of cashflows is susceptible to errors due to manual data maintenance and the absence of periodic reconciliations
3. Strengthening controls for the preparation of FEMA reimbursement packages
4. Ensuring the protection of Sensitive Personally Identifiable Information used to reallocate salaries to the appropriate Federal funding

During the audit, there were additional areas identified as opportunities for improvement, in which the agency could strengthen its internal controls associated with the cash management processes but were not deemed as significant. These areas were presented to management in a separate communication.

MANAGEMENT'S SUMMARY RESPONSE

Management concurs with the recommendations. The "Detailed Results" section of this report contains management's response to each observation.

ACKNOWLEDGEMENTS

The CDR program, Federal Finance, Cash Management and Enterprise Technology Solutions are to be commended for their commitment to serving the people of Texas through their tireless efforts in the administration and monitoring of the disaster recovery efforts. We appreciate the assistance and cooperation provided to us by the management and staff of these areas during this audit.

For questions about this report, please contact William Urbina at (512) 463-5349, DeQuincy Adamson at (512) 463-8142, or Tracey Hall at (512) 463-6078.



Tracey Hall, CPA, CISA
Director of Internal Audit

May 27, 2020
Date

OBJECTIVES

The GLO's Office of Internal Audit conducted a co-sourced audit risk assessment, in coordination with Ernst & Young (EY), related to the GLO's administration of Hurricane Harvey recovery programs, including the short-term direct housing recovery program governed by the Inter-Governmental Service Agreement (IGSA) between the GLO and FEMA. Based upon the risk assessment, program cash management of the individual assistance programs administered by the GLO was selected for the audit. The individual assistance programs included in the scope of this audit were the Direct Assistance for Limited Home Repair (DALHR) and the Manufactured Housing Units and Recreational Vehicles (MHU/RV) programs.

The objectives of this audit were:

1. Evaluate cash management policies and procedures.
2. Assess the effectiveness of controls over the review and reconciliation of incurred expenses and FEMA reimbursements procedures (including the framework to monitor and manage cash flow and review of key performance indicators).
3. Evaluate policies and procedures on monitoring the recording of employee time and reimbursement of time incurred.
4. Evaluate the agency's compliance of payment terms in executed vendor contracts.
5. Evaluate general controls on relevant IT systems and tools.

SCOPE & METHODOLOGY

The scope of the audit consisted of reviewing and evaluating information and documents associated with the cash management of the FEMA individual assistance programs (DALHR and MHU-RV) from September 1, 2017 through June 30, 2019. This audit assessed the processes, risks, and controls for the end-to-end cash management process, including monitoring of cash inflows and outflows, reporting of cash flow status to key stakeholders, segregation of duties, and use of personally identifiable information (PII). This also included an assessment of the underlying data and information technology (IT) systems. This included interviewing knowledgeable staff, observing processes, analyzing and evaluating information obtained.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

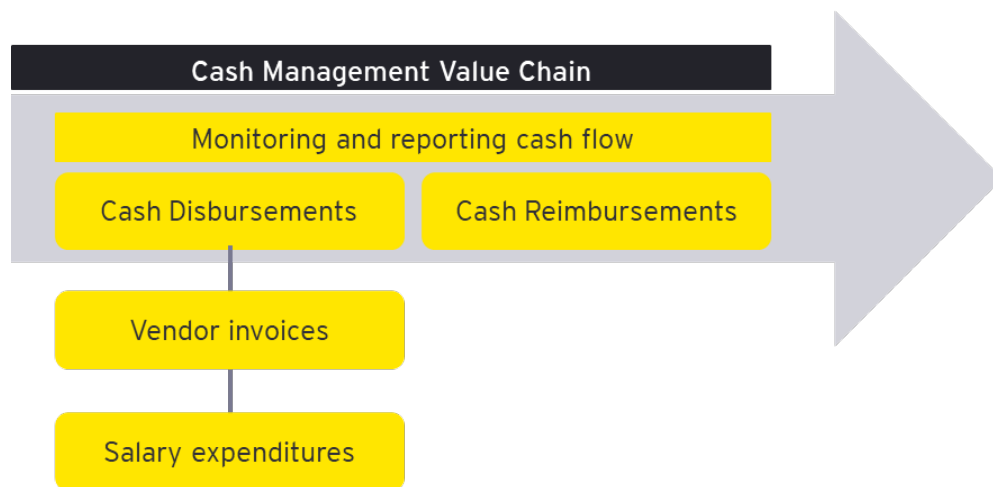
BACKGROUND INFORMATION

On August 25, 2017, the President declared major disaster DR-4332 (Hurricane Harvey) for the State of Texas (State) pursuant to his authority under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.). This declaration authorized the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) to provide financial assistance and direct services, under Section 408 of the Stafford Act, to individuals and households "who, as a direct result of a major disaster, have necessary expenses and serious needs in cases in which the individuals and households are unable to meet such expenses or needs through other means," such as insurance.

FEMA partnered with the State in a pilot program to enable the State to execute its short-term housing programs. The State designated the Texas General Land Office (GLO) as the lead state agency for this pilot program. On September 22, 2017, the GLO and FEMA entered into an Intergovernmental Service Agreement (IGSA) for the provision of direct housing assistance for Hurricane Harvey. The GLO has contracted with various entities to assist in its administration of the recovery programs including providing Manufactured Housing Units (MHUs) and Recreational Vehicles (RVs) to impacted citizens, conducting activities for the Direct Assistance for Limited Home Repairs (DALHR) program, project management, and other professional services.

OVERVIEW OF THE GLO CASH MANAGEMENT PROCESS

The following graphic outlines the end-to-end cash management processes used for payments to vendors, reimbursements submitted to FEMA for payment, and the monitoring and reporting of cashflows to GLO management.



The cash management process begins with:

1. The receipt of a contractor invoice, by the GLO through the designated Accounts Payable (AP) email address. Upon receipt of each vendor invoice, the GLO must pay the invoice within 30 days. On the 31st day, the invoice is considered overdue and payments accrue interest as dictated by Chapter 2251 of the Texas Government Code, the Prompt Pay Act.
2. The Federal Finance section submits paid invoices to FEMA in the form of reimbursement packages for reimbursement to the GLO from FEMA.

3. Monthly, the GLO prepares Administrative Funding Reports to communicate to FEMA the GLO's life-to-date spend against the 25% total projected administrative cost amount advanced to the GLO from FEMA in accordance with the IGSA.
 - Under the IGSA, Administrative costs means any direct and indirect costs, administrative expenses and any other expenses not directly chargeable to a specific project that are reasonably incurred by the State and municipalities in administering and managing Individual Assistance programs.
4. The Federal Finance section maintains a Microsoft Excel spreadsheet, titled "Cash Flow Analysis", to manually track payments made to vendors and the status of reimbursement packages submitted to FEMA from the GLO for the Individual Assistance short-term disaster recovery relief programs.
5. A summary of cashflows is reported to GLO management weekly to provide details on cash inflows from FEMA, cash outflows and expected cash outflows, and outstanding FEMA reimbursement details by vendor for the GLO to monitor available funding necessary to execute the Individual Assistance programs.