



Issue Date June 7, 2011

Audit Report Number 2011-AT-1009

TO: Mary D. Presley, Director, HUD Atlanta Office of Community Planning and Development, 4AD

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Georgia Department of Community Affairs, Atlanta, GA, Paid for Some Unsupported Program Participants

HIGHLIGHTS

What We Audited and Why

We audited the Homelessness Prevention and Rapid Re-Housing Program (Program) at the Georgia Department of Community Affairs (grantee). The audit was part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) national mandate to oversee and audit grant activities funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). We selected the grantee because it received \$19.1 million, which was the largest single Program grant awarded within Georgia under the Recovery Act. In addition, the HUD Atlanta Office of Community Planning and Development had not conducted a monitoring review of the grantee.

The objective of our audit was to determine whether the grantee established policies and procedures to ensure that (1) Program participants were eligible, (2) Program expenditures were supported with adequate documentation, (3) Program reporting requirements were met, and (4) subgrantees were monitored and trained.

What We Found

The grantee paid for Program services for participants whose eligibility was not supported with the required income verification documentation. As a result, 11 of 32 Program participants' files reviewed did not include adequate income verification documentation. Consequently, the Program participants' eligibility was not supported for \$66,879 in Program services.

What We Recommend

We recommend that the Director of HUD's Atlanta Office of Community Planning and Development require the grantee to properly support or repay \$66,879 or the current amount owed in questioned costs. We also recommend that the Director require the grantee to ensure that the subgrantees follow Program requirements for verifying and documenting participant eligibility and review a sample of their files, not included in our review, to verify the participants' eligibility.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft report to the grantee on May 5, 2011, and held an exit conference with grantee and HUD officials on May 20, 2011. The grantee provided written comments on May 31, 2011, and generally agreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. Attachments to the grantee's comments were not included in the report, but are available for review upon request.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding 1: The Grantee Paid for Unsupported Program Participants	5
Scope and Methodology	9
Internal Controls	11
Appendixes	
A. Schedule of Questioned Costs	13
B. Auditee Comments and OIG's Evaluation	14

BACKGROUND AND OBJECTIVE

The Georgia Department of Community Affairs (grantee) was created in 1977 to serve as an advocate for local governments. On July 1, 1996, the governor and General Assembly merged the Georgia Housing and Finance Authority with the Georgia Department of Community Affairs. The grantee operates a host of State and Federal grant programs; serves as the State's lead agency in housing finance and development; promulgates building codes to be adopted by local governments; provides comprehensive planning, technical, and research assistance to local governments; and serves as the lead agency for the State's solid waste reduction efforts.

On July 16, 2009, HUD awarded the grantee a Homelessness Prevention and Rapid Re-Housing Program (Program) grant of \$19.1 million. The grantee selected seven subgrantees to administer its Program. The American Recovery and Reinvestment Act of 2009 (Recovery Act) established the Program, which is regulated by the U.S. Department of Housing and Urban Development (HUD) and monitored by HUD's Office of Community Planning and Development.

The purpose of the Recovery Act is to (1) preserve and create jobs and promote economic recovery; (2) assist those most impacted by the recession; (3) provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and (5) stabilize State and local government budgets to minimize and avoid reductions in essential services and counterproductive State and local tax increases. The Program provides homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and provides assistance to rapidly rehouse persons who are homeless as defined by section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302).

Audit Objective

The objective of our audit was to determine whether the grantee established policies and procedures to ensure that (1) Program participants were eligible, (2) Program expenditures were supported with adequate documentation, (3) Program reporting requirements were met, and (4) subgrantees were monitored and trained.

RESULTS OF AUDIT

Finding 1: The Grantee Paid for Unsupported Program Participants

The grantee paid for Program services for participants whose eligibility was not supported with the required income verification documentation. The deficiencies included 10 files that did not contain the required explanation for the absence of third-party verification of income and one file that did not contain the required supporting documentation needed to determine income eligibility for the household. These conditions occurred because the grantee did not ensure that the subgrantees adequately followed its policies and procedures for verifying and documenting participant eligibility in accordance with Program requirements. As a result, 11 of 32 Program participants' files reviewed from two subgrantees did not include adequate income verification documentation. Consequently, the Program participants' eligibility was not supported for \$66,879 in Program services for rental and utility assistance.

Subgrantee Files Did Not Include Adequate Support for Eligibility

The grantee had adequate policies and procedures to ensure that grant funds were supported with adequate documentation, reporting requirements were met, and subgrantees were monitored and trained. However, it did not ensure that its subgrantees adequately followed its policies and procedures to properly establish eligibility for Program participants and activities.

We visited two of seven subgrantees responsible for administering the grantee's Program.

One subgrantee was awarded \$10.3 million, of which we tested \$99,737, and the other subgrantee received \$1.1 million, of which we tested \$98,243. The total awarded to the two subgrantees was \$11.4 million, or 60 percent, of the \$19 million awarded to the grantee. We randomly selected a total of 32 of the 2,772 participants' files for review from the 2 subgrantees.

From our review of the two subgrantees, we identified that the grantee paid \$66,879 for Program services for 11 participants whose eligibility was not supported with the required income verification documentation. The table below provides details on the unsupported Program funds associated with the 11 participants and the applicable subgrantee.

Client File Number	Subgrantee	Type of assistant provided	Assistance amount
1	A	Rental assistance Utility assistance	\$ 1,700 1,109
2	A	Rental assistance Utility assistance	\$ 4,675 408
3	A	Rental assistance Utility assistance	\$ 2,500 363
4	B	Rental assistance	\$ 3,960
5	B	Rental assistance Utility assistance	\$ 4,350 592
6	B	Rental assistance Utility assistance	\$ 4,625 336
7	B	Rental assistance Utility assistance	\$ 6,950 818
8	B	Rental assistance Utility assistance	\$ 9,896 2,731
9	B	Rental assistance Utility assistance Motel voucher Moving cost	\$ 8,208 2,357 218 296
10	B	Rental assistance Utility assistance	\$ 3,960 227
11	B	Rental assistance Utility assistance	\$ 5,825 775
Total			<u>\$ 66,879</u>

The specific deficiencies included 10 files that did not contain the required explanation for the absence of third-party verification of income and one file that did not contain the required supporting documentation needed to determine income eligibility for the household.

For example, one participant file was not documented to show that an attempt was made by the case worker to obtain third-party income verification for the participant's three adult children living in the home. The self-declaration of income form was completed by the participant's adult children, but the case worker did not complete the form as required.

Another participant file reviewed did not contain adequate income support (i.e., no pay stubs or verification of income signed by the employer). The income documentation in the file consisted of handwritten timesheets. A subgrantee official stated that it was not the best income documentation and acknowledged that she should have obtained the pay stubs and the verification of income from the employer.

We reviewed the grantee's monitoring results, which did not disclose any issues regarding income verification for these participants. However, we identified an income deficiency in one file reviewed by the grantee. The former Program coordinator stated that he relied on the case manager's notes in the file and did not look for the self-declaration of income form. However, he stated that grantee staff normally checked for the form.

HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation guidance states that grantees and subgrantees are responsible for verifying and documenting the eligibility of all Program applicants before providing Program assistance. They are also responsible for maintaining this documentation in the Program participant case file once the participant is approved for assistance.

HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that documentation standards, in order of preference, are written third-party verification, oral third-party verification, and applicant self-declaration.

The Homelessness Prevention and Rapid Re-Housing Program self-declaration of income form requires Program staff members to sign a statement indicating that they understand that third-party verification is the preferred method of certifying income for Program assistance and that the self-declaration form is only permitted when staff has attempted but been unable to obtain third-party verification. Program staff members are required to complete the form, documenting attempts made for third-party verification.

HUD Homelessness Prevention and Rapid Re-Housing Program requires adequate documentation (i.e., third-party verification or other supporting documentation) to support client and household members' incomes. Without adequate documentation, we were unable to establish whether the households' gross income met Program requirements.

Conclusion

The grantee paid \$66,879 for 11 Program participants whose eligibility was not supported. By ensuring that its subgrantees properly establish and document that Program participants are eligible, the grantee will reduce the risk of paying for participants who do not meet the Program income requirements.

Recommendations

We recommend that the Director of the Atlanta Office of Community Planning and Development require the grantee to

- 1A. Provide supporting documentation for participants' eligibility or reimburse its Program account from non-Federal funds \$66,879 or the current amount owed for participants lacking adequate documentation.
- 1B. Ensure that the subgrantees follow its policies and procedures for verifying and documenting participant eligibility in accordance with Program requirements.
- 1C. Ensure that the subgrantees review a sample of their files, not included in our review, to verify the participants' eligibility in accordance with Program requirements and reimburse its Program account from non-Federal funds for participants lacking adequate documentation.

SCOPE AND METHODOLOGY

To accomplish our objectives, we

- Researched applicable laws and regulations, including guidance issued by HUD and Office of Management and Budget circulars;
- Conducted site visits and interviews with pertinent personnel at HUD, the grantee, and the subgrantees;
- Reviewed the grant agreement, waivers, correspondence, consolidated plan substantial amendment, and audited financial statements for the grantee;
- Reviewed the grantee's policies and procedures for reimbursement requests and drawdowns;
- Reviewed the grantee's monitoring policies and procedures, monitoring reports, and files;
- Reviewed subgrantees' client files and policies and procedures for eligibility, verification, and documentation requirements; and
- Reviewed accounting policies and procedures and accounting records of the grantee and the subgrantees.

The review generally covered the period July 16, 2009, through December 31, 2010. We performed the review from January through March 2011 at the offices of the grantee and two of its subgrantees and HUD's Office of Community Planning and Development, all located in Atlanta, GA. We adjusted the review period when necessary.

We visited two of seven subgrantees responsible for administering the grantee's Program. One subgrantee was awarded \$10.3 million, of which we tested \$99,737, and the other subgrantee received \$1.1 million, of which we tested \$98,243. The total awarded to the two subgrantees was \$11.4 million, or 60 percent, of the \$19 million awarded to the grantee. We selected one subgrantee because it received the most funding and the other subgrantee because of a complaint received from a Program participant. The complaint involved denying the participant continued Program assistance, but the decision was reconsidered and reversed. We randomly selected a total of 32 of 2,772 participants' files for review from the 2 subgrantees.

We did not review and assess general and application controls over the grantee's and its subgrantees' information system. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included but were not limited to comparison of computer-processed data to written agreements, contracts, and other supporting documentation. We did not place reliance on the grantee's and its subgrantees' information and used other supporting documentation for the activities reviewed.

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

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

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

Relevant Internal Controls

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

- Policies and procedures for compliance with Program eligibility requirements,
- Policies and procedures for ensuring that grant funds are supported with adequate documentation,
- Policies and procedures for reporting Recovery Act funds, and
- Policies and procedures for subgrantee training and monitoring.

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The grantee did not ensure that the subgrantees adequately followed its policies and procedures to properly establish eligibility for Program participants.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$66,879

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Nathan Deal Governor	 Georgia™ Department of Community Affairs	Mike Beatty Commissioner
May 31, 2011		
<p>Mr. James D. McKay Regional Inspector General for Audit U.S. Department of Housing and Urban Development District Office of the Inspector General Office of Audit, Box 42 Richard B. Russell Federal Building 75 Spring Street, SW, Room 330 Atlanta, GA 30303-3388</p>		
Dear Mr. McKay:		
<p>The Department of Community Affairs (DCA) is in receipt of your May 5, 2011 letter and the discussion draft audit report pertaining to DCA's ARRA 2009 Homelessness Prevention and Rapid Re-Housing Program (HPRP). Following receipt of your letter, our staff met on May 20 with Ms. Sonya Lucas and Ms. Joyce Harris of your office, as well as Mr. Charles Greenfield of HUD's Office of CPD to discuss the draft.</p>		
<p>The draft report finds that, in 11 of 32 cases examined, the files did not include "required income verification documentation," this based largely on the improper completion of the "HPRP Staff Verification" section of a HUD-prescribed "Self-Declaration of Income" document. A copy of the form is attached for reference. In our view, the findings identified by your office appear to stem mostly from the lack of comprehensive case notes, file memoranda, etc. in order to document this HUD form with details surrounding time sensitive HPRP staff conclusions of eligibility based upon the best information available and/or applicant self-declarations made under "penalty of perjury." Also of course, and as advised by HUD in carrying out HPRP programs, HPRP staff were also considering the urgency of the applicant's request for assistance and that issues surrounding delays in decision-making that in every case could have resulted in homelessness, or extending the trauma of homelessness for clients currently homeless. Please see (slide 24 - a copy is attached) HUD guidance at - http://www.hudhre.info/documents/HPRP_EligibilityWebcastSlides.pdf.</p>		
<p>Based on our conversations with _____ (this agency was cited in 8 of 11 instances), they indicate that prior to the OIG review, this confusion over the necessity to further document the "Self-Declaration of Income" form was identified internally and corrected in making new eligibility determinations. In addition, and prior to the OIG review, this agency developed and trained sub-grantee staff on a DCA-developed "HPRP</p>		
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Mr. James D. McKay
May31,2011
Page 2

Household Eligibility" form (see attached) in an effort to address possible confusion over eligibility determinations.

Please note that we fundamentally agree that, while it may be sometimes confusing for new HPRP staff who do not have significant experience in documenting and verifying household income, the HUD prescribed level of due diligence on the part of HPRP staff to verify income or the lack of income is an appropriate and intended requirement of both HUD and this agency. DCA conducted training and provided technical assistance to sub grantees concerning requirements to document eligibility for the program. We appreciate the IG's acknowledgement that this training occurred and that DCA had adequate policies and procedures to ensure that grant funds were supported with adequate documentation.

Comment 2

As background, HUD regulations implementing HPRP state that "HUD is requiring grantees and sub grantees to certify eligibility at least once every 3 months for all program participants receiving medium-term rental assistance." Regulations further state that "The household must be at or below 50 percent of Area Median Income (AMI)." Following a review of information supplied by the sub grantees for the files selected for the OIG review, it appears that in almost all cases, evidence exists to demonstrate fundamental household income eligibility.

Comment 3

In closing, I'd like to thank you for the courtesies extended by your staff and for this opportunity to provide comments. At this juncture, we are looking forward to working with the Office of CPD to ensure that all HPRP program practices are in compliance with program requirements established by HUD. Should you have questions, please contact Ms. Carmen Chubb of the DCA staff at (404) 679-0607 or by email toCarmen.Chubb@dca.ga.gov.

Sincerely,

Mike Beatty
Commissioner

Enclosures (3) MB/ch
Cc:
Ms. Sonya Lucas, HUD OIG
Ms. Joyce Harris, HUD OIG
Mr. Charles Greenfield, HUD CPD

OIG Evaluation of Auditee Comments

- Comment 1** We recognize the urgency of the participant's request for assistance; however, the Program has income documentation standards that must be followed. The grantee recognizes the importance of the documentation standards in its household eligibility form, which states that households must be certified as eligible before they are accepted into the program. The form also states that households may not receive any services until eligibility is established, and the documentation supporting statements made on the form must be attached. Simply filling out the form does not make the household eligible.
- Comment 2** We maintain that the files we reviewed did not contain the required verification information to demonstrate fundamental household income eligibility.
- Comment 3** The grantee's general agreement with the finding and recommendations indicates its willingness to make necessary improvements to its Program. The grantee stated it will work with HUD's Community Planning Development Division to ensure all HUD program requirements are followed.