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Audit Report Number	2011-AT-1016
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TO: Maria R. Ortiz, Director of Community Planning and Development, Miami Field Office, 4DD

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

SUBJECT: The City of Hialeah, FL, Did Not Accurately Report the Number of Jobs Created or Retained on the Recovery Act Web Site for Its Homelessness Prevention and Rapid Re-Housing Program

HIGHLIGHTS

What We Audited and Why

We audited the City of Hialeah, FL's Homelessness Prevention and Rapid Re-Housing Program. Our objective was to determine whether the City administered its Program in accordance with U.S. Department of Housing and Urban Development (HUD) and American Recovery and Reinvestment Act of 2009 requirements. Specifically, we wanted to determine whether (1) expenditures were allowable, (2) Program participants were eligible, and (3) Program reporting requirements were met. We selected the City for review because it had received \$1.7 million in Program funds and as of March 31, 2011, had only spent \$830,909 in Program funds or 48 percent of its total allocation. Furthermore, OIG had not performed an audit of the City of Hialeah. The audit was in accordance with our audit plan to review HUD Recovery Act programs.

What We Found

The City demonstrated that the costs were allowable and Program participants were eligible. However, it did not accurately report the number of jobs created or retained for the quarter ending March 31, 2011, on the Recovery Act Web site. This condition occurred because the City misinterpreted the guidance and did not

have effective controls over the number of jobs reported. As a result, the public did not have access to transparent information on the number of jobs created or retained with Recovery Act funds.

What We Recommend

We recommend that the Director of the Miami Office of Community Planning and Development require the City to (1) calculate and maintain documentation to support the correct number of jobs created or retained for the quarter ending March 31, 2011, and (2) develop and implement procedures to ensure that the City adequately supports and calculates the number of jobs created or retained in future periods.

For each recommendation in the body of the report 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 discussed the finding with the City during the audit. We provided the draft report to City officials for their comments on August 12, 2011, and discussed the report with them at the exit conference on August 30, 2011. The City provided its written comments to our draft report on August 26, 2011. In its response, the City disagreed with our finding.

The auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The City Did Not Accurately Report the Number of Jobs Created or Retained on the Recovery Act Web Site	5
Scope and Methodology	8
Internal Controls	10
Appendix	
A. Auditee Comments and OIG's Evaluation	11

BACKGROUND AND OBJECTIVE

The American Recovery and Reinvestment Act of 2009 became Public Law 111-5 on February 17, 2009. The goal of the Recovery Act is to (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. The Recovery Act appropriated \$1.5 billion for the Homelessness Prevention and Rapid Re-Housing 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.

On July 14, 2009, HUD awarded the City of Hialeah more than \$1.7 million in Program funds. The Program provides homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and to provide 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). In addition, the Program provides temporary financial assistance and housing relocation and stabilization services to individuals and families that are homeless or would be homeless but for this assistance.

The City was incorporated in 1925 by the laws of the State of Florida contained in Chapter 11516 Special Acts of 1925. The City offers a wide range of services including public safety (police and fire), public works, water and wastewater, sanitation, social services, culture-recreation, public improvements, planning and zoning, library and education services, and general administrative services. The City’s Department of Grants and Human Services is responsible for the administration of all Federal, State, and local grant programs, which include Homeless Prevention, Economic Development, Community Development, Housing, Emergency Grant, and Employment and Training. These programs provide for improved quality of life for the City’s residents and neighborhoods, which is the primary goal of this department.

As of April 30, 2011, HUD had reimbursed the City \$852,185 in Program funds, of which approximately \$537,712 provided financial assistance to prevent homelessness and housing assistance to 159 recipients.

Program activity name	Amount reimbursed by HUD
Homeless Prevention	\$400,948
Homeless Assistance-Rapid Re-Housing	\$136,764
Subtotal	\$537,712
Housing Relocation & Stabilization Services	\$296,132
Administration	\$18,341
Total	<u>\$852,185</u>

Our objective was to determine whether the City administered its Program in accordance with HUD and Recovery Act requirements. Specifically, we wanted to determine whether (1) expenditures were allowable, (2) Program participants were eligible, and (3) Program reporting requirements were met.

RESULTS OF AUDIT

Finding: The City Did Not Accurately Report the Number of Jobs Created or Retained on the Recovery Act Web Site

The City did not accurately report the number of jobs created or retained for the quarter ending March 31, 2011. This condition occurred because the City misinterpreted the guidance and did not have effective controls over the number of jobs reported. As a result, the public did not have access to transparent information on the number of jobs created or retained with Recovery Act funds.

To comply with the transparency and accountability requirements of the Recovery Act, recipients of funds are required to prepare quarterly reports. The recipients are to report the nature and status of their projects and the number of jobs created and retained.¹

Inaccurate Method of Job Calculation

The City did not accurately report the number of jobs created or retained for the quarter ending March 31, 2011. Specifically, it did not use the proper method when calculating the number of jobs and did not maintain documentation to support two of the five full-time-equivalents (FTE) it reported. Office of Management and Budget (OMB) Memorandum 10-08, Part 2, Section 5-2.4 and 10 requires that the number of jobs reported on the Recovery Act Web site be determined as FTEs and that recipients should be prepared to justify the number of jobs created or retained.

The City reported five full-time-equivalent jobs in the quarter ending March 31, 2011. It stated that the five FTEs were composed of four City employees and a subrecipient.

The City explained that the number of jobs reported was based on the number of individuals employed to work on the Program. However, OMB Memorandum 10-08, Part 2, Section 5-2.4 requires the number of full-time-equivalent jobs to be calculated based on staff hours worked per quarter. In calculating an FTE, the number of actual hours worked in funded jobs is divided by the number of hours representing a full work schedule. The FTEs are adjusted to count only the portion corresponding to the percentage of the job funded by Recovery Act funds.

¹ American Recovery and Reinvestment Act of 2009, Section 1512 (C)

To ensure that the number of jobs was accurately reported, we requested that the City provide documentation to support the numbers reported. The City was able to provide documentation showing that three City employees were full time and solely funded by the Program (employees A-C). Therefore, the City accurately reported three of the five FTEs, although the method of calculation was incorrect.

Job created-retained	FTEs reported	Supported
1. Employee A	1	Yes
2. Employee B	1	Yes
3. Employee C	1	Yes
4. Employee D	1	No
5. Subrecipient E	1	No

Unsupported Number of Jobs Reported

The City was unable to provide documentation to support two FTEs reported or that the number of jobs was correctly calculated. Although OMB Memorandum 10-08, Part 2, Section 5-2.10 does not establish specific requirements for documentation, it recommends that recipients use reasonable judgment in determining how best to estimate the job impact of Recovery Act dollars, including the appropriate sources of information used to generate such estimate.

According to the City, it reported one FTE for employee D because the employee was hired to evaluate and supervise the Program. In addition, it indicated that the employee dedicated approximately 90 percent of its time to the Program. However, it did not have documentation to support the actual hours worked on the Program or percentage funded by the Program or that the employee was hired for the purpose intended.

The City did not have documentation to support the one FTE reported for subrecipient E, which provided data collection services to the City. The City based its calculation on the number of subrecipients contracted to work on the Program. It was not based on the method established by OMB Memorandum 10-08, Part 2, Section 5-2.4. After several explanations, the City indicated that it was waiting for invoices to verify the number of jobs reported.

The condition described above occurred because the City misinterpreted the OMB guidance and did not have effective controls over the number of jobs it reported. According to the City, the number of jobs reported was based on the number of individuals that worked on the Program rather than on a full-time-equivalent basis supported by documentation. In addition, the City did not have procedures that specified the documentation required to support the number of jobs. As a result, the public did not have access to transparent information on the number of jobs

created or retained with the Recovery Act funds. The City indicated, upon learning of our finding, that it would calculate the number of jobs created or reported based on FTEs as required and would use HUD's Recovery Act calculator to determine the number of FTEs.

Conclusion

The City did not follow the Recovery Act guidance when it did not accurately report or support two FTEs that it reported in the quarter ending March 31, 2011. This condition occurred because the City misinterpreted the OMB guidance and did not have controls over the jobs it reported. As a result, there was no assurance that the number of jobs created or retained was transparent. Without an understanding of how to calculate the number of jobs created and retained or supporting documentation to substantiate the number of jobs created or retained in relation to the actual services performed by personnel, the City could potentially report inaccurate information.

Recommendations

We recommend that the Director of the Miami Office of Community Planning and Development require the City to

- 1A. Calculate and maintain documentation to support the correct number of jobs created or retained for the quarter ending March 31, 2011.
- 1B. Develop and implement procedures to ensure that the City adequately supports and accurately calculates the number of jobs created or retained in future reporting periods.

SCOPE AND METHODOLOGY

Our objective was to determine whether the City administered its Program in accordance with HUD and Recovery Act requirements. Specifically, we wanted to determine whether (1) expenditures were allowable, (2) Program participants were eligible, and (3) Program reporting requirements were met. To accomplish the objective, we

- Reviewed relevant HUD and Recovery Act regulations,
- Reviewed relevant City policies and procedures,
- Interviewed HUD and City officials,
- Reviewed City financial records related to Program expenditures,
- Reviewed reports from HUD's Integrated Disbursement and Information System,
- Reviewed quarterly reports from the Recovery Act Web site, and
- Reviewed City recipient files and records.

As of April 30, 2011, HUD had reimbursed the City \$852,185 in Program funds, of which \$537,712 provided financial assistance to prevent homelessness and housing assistance to 159 recipients. Of the 159 recipients, 108 completed the Program and received approximately \$244,991 in financial assistance. To capture the entire process from the time the recipient entered and completed the Program, we selected 20 recipients, with expenditures of approximately \$120,962 that completed the Program and received the highest amount of Program assistance. Our selection represented 49.4 percent of the total dollar amount reimbursed for recipients that completed the Program. We reviewed the first 10 recipient files for participant eligibility and the remaining 10 recipient files for cost allowability. Our review of participant eligibility was limited to reviewing support for the initial certification and determining whether the City recertified the recipients every 3 months or as needed. Due to the number of recipients and small transactions for each recipient, we did not perform 100 percent testing. The results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

In addition, we reviewed the accuracy of the reported data in the last quarter from January 1 through March 31, 2011. Specifically, we reviewed those elements that had significant reporting errors according to OMB 10-08, Part 1, Section 3.1.² We also reviewed the amount reported that had been reimbursed by HUD. Based on interviews with staff members and our review, we determined that the City did not have documentation to support the number of jobs created or

²OMB Memorandum M-10-08 informed Federal agencies of certain data fields that are of major concern for significant errors. These fields include (1) Federal amount of the award, (2) number of jobs retained or created, (3) Federal award number, and (4) recipient name.

retained that it reported. Thus, we reviewed the number of jobs created or retained that it reported on the Recovery Act Web site for all prior quarters (July 2009 through March 2011).

To assess the reliability of the number of jobs created or retained that the City reported on the Recovery Act Web site, we (1) interviewed City officials about the data, (2) reviewed existing documentation related to the data source, and (3) traced data from the City's system for accuracy and completeness of the data. The tests included a comparison of the data reported on the Recovery Act Web site to and from the City's records. We generally relied on the data reported on the Recovery Act Web site except for two FTEs reported for the quarter ending March 31, 2011. The City did not have documentation to support these FTEs (see finding).

Our review generally covered the period July 14, 2009, through April 30, 2011, and was extended as necessary during the audit. Our review was conducted from May through July 2011 at the City of Hialeah, Department of Grants and Human Services, located at 501 Palm Avenue, Hialeah, FL.

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 objectives:

- Controls over program operations to reasonably ensure that the program meets its objective(s).
- Controls over reliability of data.
- Controls over compliance with laws and regulations.
- Controls over the safeguarding of resources against waste, loss, and misuse.

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 City did not accurately report the number of jobs created or retained on the Recovery Act Web site (see finding).

APPENDIX

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

August 25, 2011

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
District Office of Inspector General
Office of Audit, Box 42
Richard 8. Russell Federal Building
75 Spring Street, SW Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay

I am in receipt of your correspondence dated August 12, 2011 whereby you provide a draft report on your review of the City of Hialeah's Homeless Prevention Rapid Re-Housing Program (HPRP).

I would like to take this opportunity to express our appreciation to your staffs diligence and professionalism while conducting this review/survey as well as for your positive comments stating that the City of Hialeah administered its HPRP Program in accordance with the U. S. Department of Housing and Urban Development (HUD) and the American Recovery Reinvestment Act (ARRA) of 2009. More specifically, that the City demonstrated that (1) expenditures were allowable, (2) Program participants were eligible.

In your report, you further stated that you found: "the City did not accurately report the number of jobs created or retained for the quarter ending March 31, 2011, on the Recovery Act Website. This condition occurred because the City misinterpreted the guidance and did not have effective controls over the number of jobs reported. As a result, the public did not have access to transparent information on the number of jobs created or retained with Recovery Act funds". We respectfully disagree.

Comment 1

Although the HPRP Program was funded under AARA and it contains specific reporting requirements, the main emphasis is not job creation/retention, but rather homeless prevention services. It was not intended to be a shovel ready brick and mortar type project. U.S. HUD awarded the City of Hialeah \$1,734,021.00 in HPRP Program funds. Based on the HPRP Program regulations, the City (the only entitlement in Miami-Dade County operating its own program) designed and implemented a comprehensive program in a short turn-around period that has been providing homeless prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and to provide assistance to rapidly re-house persons who are homeless as defined by Section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). In addition, the Program provides temporary financial assistance and housing relocation and stabilization services to individuals and families that are homeless or would be homeless but for this assistance

Comment 2

We concur that during the quarter ending March 31, 2011, the City reported five full-time equivalents (FTE). However, this is in no way an indication that the City lacks internal controls. The City and its staff were diligent in responding to the auditor's concerns of not utilizing the proper method when calculating the number of jobs created or retained as we immediately went online, researched and followed the guidance on the America Recovery and Reinvestment Act - Part 2 of this Memorandum updates Section 5: Reporting on Jobs Creation Estimates by Recipients (M-09-21) for Full Time Equivalents (FTEs) are as follows in "Attachment A": ARRA Jobs Worksheet for Quarterly Reporting and HUD Recovery Act Job Counting Calculator. As a result, on July 8, 2011, we revised the report on the Recovery Act Web site, thus reflecting the number of jobs created or retained for the quarter ending March 31, 2011 from 5.00 FTE to 4.49 (FTE) as documented in • Attachment B". Additionally, "Attachment C", is a copy of the report for quarter ending June 30, 2011, which reflects the accurate reporting of 4.52 FTE with all supporting documentation to substantiate the number of jobs created or retained. In the report, you indicated that the US HUD area office should monitor and ensure compliance. Please be advised that these corrective actions have already been implemented to ensure that the public is availed with transparent information on the number of jobs created or retained with Recovery Act funds per formula.

Comment 3

However, the important fact remains that we are talking about one-half of a job difference (4.49 VS 5.0) reported, which does not show any intent of misleading the public nor lack of program understanding and internal controls. It was simply a matter of interpretation. Not unlike the Internal Revenue Service, we rounded up to the next whole number.

Please be advised that the City achieved the first expenditure requirement of 60 percent within two years of the grant agreement by the deadline of July 14, 2011. As of this date, the City has expended 77 percent of its total allocation of HPRP grant funds totaling \$1,339,123.76; thereby positioning the City to expend 100 percent of grant allocation, way in advance of our three year deadline of July 14, 2012.

Thank you for your attention to this matter and we look forward to a continued positive working relationship between the City and the US Department of Housing and Urban Development.

Frederick H. Marinelli, Director
Department of Grants and Human Services

cc: Maria R. Ortiz-Hill, CPO Director. Miami Field Office
Kilah White, Assistant Regional Inspector General for Audit
Elba Magali Ramirez. Deputy Director Department of Grants and Human Services

OIG Evaluation of Auditee Comments

Comment 1 The City disagreed with our finding. The City acknowledged that the Program was funded under the Recovery Act which contains specific reporting requirements; however, it believed that the main emphasis of the program was to provide homeless prevention services rather than job creation/retention.

The objective of the Program was to provide financial assistance and services to prevent individuals and families from becoming homeless or help those who are experiencing homelessness. However, the overall purpose of the Recovery Act was to (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. As a result, accurate job reporting is important in order to capture the impact of Recovery funding. In addition, recipients of Recovery Act funding are required to accurately report on the number of jobs created or retained.³

Comment 2 The City concurred with the OIG that it inaccurately reported five FTEs during the quarter ending March 31, 2011. Although it inaccurately reported five FTEs, the City believed that it was not an indication that it lacked internal controls. However, to ensure that the public is availed with transparent information on the jobs reported, the City implemented the proper method of calculating the number of jobs according to the OMB guidance. As a result, it recalculated the number of jobs reported for the quarter ending March 31, 2011, and provided the copy of the report for the quarter ending June 30, 2011, along with supporting documentation.

We recognize the City's intention to correct the finding and address the recommendations. The City provided its calculation for the two quarters in 2011, but it did not provide documentation supporting the calculation. During the exit conference held on August 30, 2011, we explained to the City the documentation needed to support its calculation. OMB Memorandum 10-08, Part 2, Section 5-2.10 requires that recipients should be prepared to justify the number of jobs created/retained. Recipients must use reasonable judgment in determining how best to estimate the job impact of Recovery dollars, including the appropriate sources of information used to generate such estimate. Although the City provided procedures explaining the method for job calculation, the procedures also need to state the documentation required to support its calculation.

Comment 3 According to the City, since the amount it over reported was minimal (by .51 FTEs), the City explained that this overstatement did not suggest that it intended to mislead the public or had a lack of program understanding and internal controls. The City simply misinterpreted the OMB Guidance. In addition, it rounded its calculation to the nearest whole number.

³ OMB Memorandum 10-08, Part 2, Section 5.1 updated the manner in which job estimates are calculated and reported in order to ensure that recipients can accurately and easily report the number of jobs created or retained.

Since the City did not provide documentation supporting its calculation, we could not verify the number of jobs created or retained and whether the difference was minimal. The report did not indicate that the City intentionally mislead the public. The OMB Guidance provides a formula and a worksheet⁴ that explains how to calculate the number of jobs created or retained. This guidance did not state that the number of jobs could be rounded to the nearest whole number. According to OMB Memorandum 10-08, Part 2, Section 5.3, the purpose of the formula was to report the most accurate number of jobs without overstating the number of other than full-time permanent jobs. Thus, the formula calculator converted part-time or temporary jobs into fractional FTEs. The Notice of Allocations, Application Procedures, and Requirements for Homeless Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009 [Docket No. FR-5307-N-01], Section VI Reporting Requirements, required grantees to have internal controls in place that allows the Grantee to separately track and report on Recovery Act funds. The City did not have procedures stating the documents required to support the jobs funded by the Recovery Act. Therefore, it did not have controls in place to ensure accurate job reporting.

⁴ OMB Memorandum 10-08, Part 2, Section 5.3 provides the formula for reporting and includes a Jobs Calculation worksheet for Quarterly Reporting that outlines the necessary calculations to estimate the jobs created or retained for Recovery funded projects.