Issue Date September 28, 2011
Audit Report Number 2011-AT-1019

TO: Charles Franklin, Director, Community Planning and Development Division, 4CD

//signed//

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

SUBJECT: The Alabama Department of Economic and Community Affairs, Montgomery, AL, Used Homelessness Prevention and Rapid Re-Housing Program Funds for Ineligible and Unsupported Purposes

HIGHLIGHTS

What We Audited and Why

We audited the State of Alabama Homelessness Prevention and Rapid Re-Housing Program in Montgomery, AL. The audit was part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) annual audit plan to review grant activities funded by the American Recovery and Reinvestment Act of 2009. We selected the grantee because it received $13.3 million, which was the largest single Program grant awarded within Alabama under the Recovery Act. In addition, the HUD Birmingham 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 administered the grant in compliance with the Recovery Act and other applicable regulations to ensure that (1) it properly reported results on the Recovery.gov Web site, (2) it properly monitored its subgrantees, and (3) program participants and activity expenditures were eligible and their eligibility was supported.

What We Found

The grantee adequately reported results on the Recovery.gov Web site. However, it did not ensure that its subgrantees' Program participants and activity expenditures were eligible and their eligibility was supported. As a result, the grantee missed opportunities to detect and prevent errors by its subgrantees on a timely basis. Consequently, Program funds totaling $69,036 were paid for participants who were not eligible or whose eligibility was not supported.

What We Recommended

We recommend that the Director for Community Planning and Development require the grantee to (1) repay the U.S. Treasury account from non-Federal funds the ineligible costs of $1,075 charged to its Program and (2) properly support the $67,961 charged to its Program or repay the U.S. Treasury account from non-Federal funds the amount that it cannot support.

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 discussed our review results with HUD officials, grantee officials, and subgrantee officials during the audit. We provided a copy of the draft report to the grantee on August 29, 2011, for its comments and discussed the report with grantee officials at the exit conference on September 1, 2011. The grantee provided written comments on September 12, 2011. It agreed with our findings.

The complete text of the grantee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The State of Alabama Department of Economic and Community Affairs (grantee), located in Montgomery, AL, is responsible for ensuring that each entity that administers all or a portion of its Homelessness Prevention and Rapid Re-Housing Program funds to carry out Program activities fully complies with Program requirements.

The U.S. Department of Housing and Urban Development (HUD) awarded the grantee a Program grant of $13.3 million. HUD signed the grant agreement on August 27, 2009. The grantee selected nine subgrantees to administer its Program. The American Recovery and Reinvestment Act of 2009 established the Program, which is regulated by 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).

Subgrantees collaborate with members of local continuums providing mainstream resources to prevent and end homelessness by assisting households at or below 50 percent of the area median income. Although the Community Development Block Grant program, the Emergency Shelter Grant program, the Housing Opportunities for Persons With AIDS program, and the HOME Investment Partnerships Program address the needs of low- to moderate-income persons within the State, Homelessness Prevention and Rapid Re-Housing Program grant funds are to provide short- or medium-term financial assistance to Program participants who might benefit from similar assistance by allowing eligible participants to remain in their homes and help decrease the incidence of homelessness in the State. The rapid rehousing component of the Program is used to place those households that are already homeless into affordable, sustainable housing units.

The audit objective was to determine whether the grantee administered the grant in compliance with the Recovery Act and other applicable regulations to ensure that (1) it properly reported results on the Recovery.gov Web site, (2) it properly monitored its subgrantees, and (3) program participants and activity expenditures were eligible and their eligibility was supported.

RESULTS OF AUDIT

Finding: The Grantee Did Not Ensure That Program Participants and Activities Were Eligible and Their Eligibility Was Supported

The grantee did not ensure that its subgrantees' Program participants and activity expenditures were eligible and their eligibility was supported. This condition occurred because the grantee did not monitor its subgrantees on a timely basis. As a result, the grantee missed opportunities for timely detection and prevention of errors by its subgrantees. Consequently, Program funds totaling $69,036 were paid for participants who were not eligible or whose eligibility was not supported.

Participants and Activities Not Eligible and Eligibility Not Supported

The grantee did not administer its grant in compliance with the Recovery Act and other applicable regulations to ensure that its subgrantees' Program participants and activity expenditures were eligible and their eligibility was supported. Funding provided under the Recovery Act is intended in part for short-term or medium-term rental assistance and related activities for homelessness prevention and rapid rehousing of persons who have become homeless. Key minimum provisions of the HUD Federal Register Notice FR-5307-N-01, Requirements for Funding, Section IV.D.2(2) state that to receive any financial assistance or services funded by the Program, the household must be at or below 50 percent of area median income, be either homeless or at risk of losing its housing, and meet both of the following circumstances:

- No appropriate subsequent housing options have been identified, and
- The household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing. The defining question to ask is: "Would this individual or family be homeless but for this assistance?"

Regulations at 24 CFR (Code of Federal Regulations) 85.40(a) state that grantees are responsible for managing the day-to-day operations of grant-supported activities to ensure compliance with applicable Federal requirements. To document compliance with Program requirements, the grantee's own Program policies and procedures required its subgrantees to maintain participant files. However, subgrantees did not maintain files containing all of the required documentation to support that participants and activities met key requirements to receive Program assistance.

Our review of 60 participant files determined that

- 1 participant who received $1,075 was not eligible for Program assistance because the participant's income exceeded the 50 percent area median income threshold and

- 38 participants received a total of $67,961, although their files lacked required documentation to determine whether the participants and activities were eligible for Program assistance.

All exceptions involved two of the three subgrantees reviewed. The following table provides specific results for each subgrantee reviewed.

Subgrantee	**Award**	**Sample size**	**Number unsupported**	**Unsupported costs**	**Number ineligible**	**Ineligible costs**
1	$1,000,000	20	18	$28,889	1	$1,075
2	$1,000,000	20	20	$39,072	0	$0
3	$1,500,000	20	0	$0	0	$0
Totals	**$3,500,000**	**60**	**38**	**$67,961**	**1**	**$1,075**

For the 38 participants whose eligibility was unsupported, the files lacked documentation necessary to determine whether the participants and activities were eligible for Program assistance. For example, participant files lacked documentation to support that the subgrantees ensured the eligibility of the participant by evaluating assets, other housing options, duplicate assistance, and income. Participant files also lacked documentation to determine whether the activities paid for on behalf of the participants were eligible, such as inspections to determine the habitability of residences, lead-based paint screening and inspections, rent reasonableness determinations, and proper calculations of rental and utility assistance provided to participants.

The grantee did not monitor its subgrantees on a timely basis. Although the grantee performed desk reviews and provided training and technical assistance to its subgrantees, it did not perform the required onsite monitoring. Federal Register Notice FR-5307-N-01, Post-Award Process Requirements, Section V.I requires grantees to follow the monitoring procedures established in its substantial amendment to its approved consolidated plan. The grantee's substantial amendment required that it perform at least one onsite monitoring review of its subgrantees when each had drawn down at least 30 percent of the funds.

However, the grantee did not monitor its nine subgrantees as required. As of April 1, 2011, the grantee had monitored three of its nine subgrantees. The number of days elapsed from the date the monitoring should have been scheduled for all nine subgrantees to April 1, 2011, ranged from 130 to 309 days. Also, after each monitoring visit, the grantee was required to write a report to the subgrantee to explain the results of the review and impose appropriate corrective measures. The grantee had not issued any monitoring reports as of April 1, 2011.

The following table shows the individual status of the grantee's onsite monitoring as of April 1, 2011.

Subgrantee	Award date	Award amount	Date 30 percent expended	Date monitored	Days elapsed
1	9/21/2009	2,065,363	10/22/2010	3/1/2011	130
2	9/21/2009	1,500,000	11/16/2010	Not monitored	136
3	9/21/2009	2,000,000	8/31/2010	2/1/2011	154
4	9/21/2009	1,000,000	10/21/2010	3/29/2011	159
5	9/21/2009	1,000,000	9/9/2010	Not monitored	204
6	9/21/2009	1,000,000	8/20/2010	Not monitored	224
7	9/21/2009	497,000	6/24/2010	Not monitored	281
8	9/21/2009	2,500,000	6/14/2010	Not monitored	291
9	9/21/2009	1,000,000	5/27/2010	Not monitored	309

Grantee officials stated that they did not monitor subgrantees in a timely manner because they used the 30 percent drawdown mark as a guide not meant to be viewed in absolute terms. Moreover, they stated that they were not comfortable monitoring the Program subgrantees at an earlier date because it took considerable time to gain an understanding of the Program. The officials felt that it would have been worse to monitor subgrantees without being adequately knowledgeable. They acknowledged that they could have scheduled the monitoring earlier; however, they doubted that the monitoring would have been thorough.

Timely monitoring could have detected and prevented errors by subgrantees in properly documenting and determining whether participants and activities were eligible to receive Program assistance and their eligibility was supported. As a result of the untimely monitoring, Program funds totaling $1,075 were paid for participants who were not eligible, and $67,961 was paid for participants whose eligibility was not supported.

During the audit, the grantee completed its onsite monitoring for all nine subgrantees and issued four monitoring reports with findings and results similar to our results. The remaining monitoring reports were not final when we completed our site work. Also, as we communicated the preliminary results during the audit, the grantee and its subgrantees began corrective actions. For example, the grantee conducted training for all of its subgrantees to advise them of issues detected by the audit and instruct them on revised procedures intended to prevent their recurrence. While we were onsite, the subgrantees we visited began corrective actions to improve documentation and correct omissions in participant files.

Recommendations

We recommend that the Director, Office of Community Planning and Development,

1A. Require the grantee to repay the U.S. Treasury account from non-Federal funds the ineligible costs of $1,075 charged to its Program.

1B. Require the grantee to properly support the $67,961 charged to its Program or repay the U.S. Treasury account from non-Federal funds the amount that it cannot support.

1C. Ensure that the grantee completes its written monitoring reports for its subgrantees and implements all appropriate corrective actions.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Researched Public Law 111-5, "The Recovery Act," which established the Program fund; Office of Management and Budget memorandum M-09-21, which implemented guidance for reporting for the Recovery Act fund; and the McKinney-Vento Homeless Assistance Act (42 U.S.C. 11032), which established guidelines for identifying homeless persons.

- Researched HUD Federal Register notices, HUD handbooks, and the Code of Federal Regulations.

- Researched HUD's monitoring of its Program grantee.

- Researched the grantee's substantial amendment to the consolidated plan that established its Program activities and the grantee's policies and procedures for properly administering its Program funds.

- Researched the grantee's agreements with its Program subgrantees and the monitoring of its subgrantees.

- Interviewed officials of the Birmingham HUD offices of Community Planning and Development, the Alabama Department of Economic and Community Affairs, and its subgrantees.

- Reviewed subgrantees' Program records and costs to include board minutes, financial statements, case files, bank statements, and invoice support for selected Program participants.

- Researched data for this grant that was reported on the Recovery.gov Web site.

- Observed subgrantees' procedures and staffing levels pertaining to jobs reported on Recovery.gov.

The review generally covered the period September 1, 2009, through March 31, 2011. We performed the review from April through August 2011 at the offices of the grantee in Montgomery, AL; three of its subgrantees located in Phenix City, AL, Thomasville, AL, and Huntsville, AL; and HUD's Office of Community Planning and Development. We adjusted the review period when necessary.

We visited three of nine subgrantees responsible for administering the grantee's Program. The first subgrantee was awarded $1.5 million, of which we tested $165,824. The second subgrantee was awarded $1 million, of which we tested $39,072. The third subgrantee was awarded $1 million, of which we tested $31,274. The total awarded to the three subgrantees was $3.5 million, or 26 percent of the $13.3 million awarded to the grantee. We selected these three subgrantees because they received the largest individual grants among the subgrantees that the grantee had not monitored. We randomly selected 60 of 695 participant files for review from the three subgrantees. We designed the sample using nonstatistical methods to include case files from all case workers at each subgrantee to ensure our review evaluated the performance of all case workers. Because our sampling methods were nonstatistical the results cannot be projected to the intended population.

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(s). 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:

- Compliance with laws and regulations.
- Reliability of reported information.

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 have adequate procedures and controls in place to ensure that its subgrantees' Program participants and activity expenditures were eligible and their eligibility was supported (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$1,075	
1B		$67,961
Total	$1,075	$67,961

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ 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**

OFFICE OF THE GOVERNOR

ALABAMA DEPARTMENT OF ECONOMIC AND COMMUNITY AFFAIRS

Comment 1

ROBERT BENTLEY
GOVERNOR

JIM BYARD, JR
DIRECTOR

September 6, 2011
Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region 4, Office of Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388

Dear Mr. McKay:

I appreciate the courtesy shown by your staff during their recent audit of the State of Alabama's Homelessness Prevention and Rapid Re-Housing Program (HPRP) funded by the American Recovery and Reinvestment Act. The State's HPRP is implemented by the Alabama Department of Economic and Community Affairs (ADECA). ADECA has received your draft report, dated August 29, 2011, regarding the audit. Our comments, including specific actions to be taken to address your recommendations, appear below.

The audit revealed that assistance in the amount of $1,075 was provided to a participant whose income exceeded the income limit for program eligibility. ADECA staff members will work with the subgrantee to ascertain the ineligibility of this participant. In the event that the participant is found to be ineligible, ADECA staff members will work with the subgrantee to ensure that the $1,075 will be repaid from non-Federal funds.

The audit also revealed that supporting documentation for 38 participants was either incomplete or absent. The lack of supporting documentation resulted in $67,961 worth of unsupported assistance. ADCEA staff members will collaborate with the subgrantees to ensure that adequate supporting documentation is complete and present in the participants' files. For any assistance that cannot be adequately supported, ADECA staff members will work with the subgrantees to ensure that all unsupported costs will be repaid from non-Federal funds.

401 ADAMS AVENUE. SUITE 580. P.O. Box 5690. MONTGOMERY, ALABAMA 36103-5690. (344) 242-5100

Lastly, the audit disclosed that ADECA did not monitor its subgrantees in a timely manner. When the audit began, only three subgrantees had been monitored. To date, monitoring visits have been made for all nine subgrantees. Also, written monitoring reports have been prepared and mailed to eight subgrantees. The ninth monitoring could not be completed because the subgrantee's staff was not always available throughout the monitoring. Upon completion of the monitoring, a written report will be mailed to the subgrantee.

In closing, I would like to thank you for the professionalism shown by your staff during the audit. They gave genuine consideration to the questions and concerns of my staff members and those of our subgrantees. They remained accessible and available throughout the audit. We look forward to working with our local HUD field office to implement the recommendations contained in your report. It remains ADECA's goal to ensure that our subgrantees adhere to practices that are in compliance with HPRP requirements established by HUD. Should you have any questions, please contact Mr. Shabbir Olia at (334) 242-5468.

Sincerely,

Jim Byard, Jr.
Director

JB:SHG:sj

c: Mr. Charles Franklin, HUD CPD
Ms. Sonya Lucas, HUD OIG
Mr. Rob Burgess, HUD OIG

OIG Evaluation of Auditee Comments

Comment 1 The Grantee's agreement with the finding and recommendations indicates its willingness to make necessary improvements to its Homelessness Prevention and Rapid Re-Housing Program.