



Issue Date September 17, 2010
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Audit Report Number 2010-AT-1013
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TO: Krista Mills, Acting Director, Office of Community Planning and Development,  
Louisville, KY, 4IMA

//signed//

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

SUBJECT: The Louisville/Jefferson County Metropolitan Government Needs To Strengthen  
Controls Over Reporting for Its Neighborhood Stabilization Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed Louisville/Jefferson County Metropolitan Government's (Louisville Metro) Neighborhood Stabilization Program (program). We selected Louisville Metro for review based on its low percentage of obligations and the approaching September 20, 2010, deadline for obligating funds. Our objective was to evaluate Louisville Metro's use of program funding, including the propriety of its activities, obligations, expenditures, and reports to the U.S. Department of Housing and Urban Development (HUD).

### **What We Found**

Louisville Metro generally administered its program in accordance with HUD's rules and regulations and was making progress in obligating its funds. However, it was not always accurate in its reporting to HUD due to weak internal controls.

## **What We Recommend**

We recommend that the Director of the Louisville Office of Community Planning and Development continue to monitor Louisville Metro's progress in obligating its program funds to ensure that it meets the September 20, 2010, deadline. We also recommend that Louisville Metro strengthen internal controls over reporting.

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 the draft report to Louisville Metro on August 30, 2010, and discussed the report with officials at an exit conference on September 2, 2010. Louisville Metro agreed with the report and was in the process of implementing revised reporting procedures.

The complete text of Louisville Metro's response can be found in appendix A of this report. Attachments to the comments were not included in the report but are available for review upon request.

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## BACKGROUND AND OBJECTIVE

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The Neighborhood Stabilization Program (program) was authorized under Title III of the Housing and Economic Recovery Act of 2008 (Act). The program provided grants to every State and certain local communities to purchase foreclosed-upon or abandoned homes and to rehabilitate, resell, or redevelop the homes to stabilize neighborhoods and stem declining values in neighboring homes. The Act called for allocating funds “to states and units of the general local government with the greatest need.” In addition, the Act required that not less than 25 percent of the funds be used to benefit individuals or families whose incomes do not exceed 50 percent of area median income. The U.S. Department of Housing and Urban Development (HUD) awarded \$4 billion in grants to 309 grantees. The grantees were allowed 18 months from the date HUD signed their grant agreements to obligate funds and 4 years to expend the funds.

Louisville/Jefferson County Metropolitan Government (Louisville Metro) was formed on January 6, 2003, when the Jefferson County Fiscal Court and the City of Louisville governments merged and formed the new entity. Louisville Metro is a public body corporate and politic, duly created and existing as a political subdivision of the Commonwealth of Kentucky under the constitution and laws of the Commonwealth. Louisville Metro is governed by an elected mayor and the Metro Council composed of 26 council members from each of the 26 council districts. Louisville Metro has 36 active HUD grants for \$71 million. It received \$10.47 million in program funding including more than \$6.97 million directly from HUD and an additional \$3.5 million from the Commonwealth of Kentucky. Louisville Metro’s program activities for its \$6.97 million HUD grant focuses on acquisition and rehabilitation of vacant properties.

Activity	Purpose	Budget	Projected # of units
1- New construction/ redevelopment - vacant units	To be accomplished by three nonprofits. Redevelop demolished or vacant properties; purchase and redevelop homes and residential properties that have been abandoned or foreclosed upon to sell or redevelop such homes or properties.	\$2,676,349	18
2- New construction/ redevelopment - vacant units	To be accomplished by the local housing authority. Program mandatory set-aside to benefit 25 percent of the families at or below 50 percent of the area median income. Purchase and redevelop homes and residential properties that have been abandoned or foreclosed upon to provide rental housing.	\$2,100,000	9
3- New construction/ redevelopment - vacant units	To be accomplished by two nonprofits. Redevelop demolished or vacant properties for use as public facilities.	\$1,500,000	2
Administration and planning	Use 10% of program funds for administration and planning activities.	<u>\$697,372</u>	NA
<b>Total</b>		<u>\$6,973,721</u>	

Our objective was to evaluate Louisville Metro’s use of program funding, including the propriety of its activities, obligations, expenditures, and reports to HUD.

## RESULTS OF AUDIT

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### Finding 1: Louisville Metro Generally Complied With Program Requirements but Its Internal Controls Over Reporting Had Weaknesses

Louisville Metro generally complied with program requirements and recently made significant progress in obligating its funds; however, it needs to strengthen its controls over reporting to HUD. Louisville Metro's reporting of expenditures was not always accurate. This deficiency occurred because Louisville Metro did not verify information before entering it into HUD's Disaster Recovery Grant Reporting system. As a result, it lacked assurance that its reporting to HUD and the public was accurate.

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#### Louisville Metro Generally Complied With Program Requirements

Louisville Metro was executing its program in accordance with its approved action plan. With the exception of the internal control weakness discussed below, we found no significant deficiencies. Louisville Metro's planned activities and expenditures were eligible and supported. Although Louisville Metro had been slow in obligating its funds, it had recently made significant progress in that area.

Section 2301(c)(1) of the Act required recipients to use (obligate) all program funds not later than 18 months after receipt. Thus, Louisville Metro has until September 20, 2010, to obligate its funds before they become subject to recapture by HUD. As of March 30, 2010, Louisville Metro had obligated only \$120,000 or about 1.7 percent of its funds. However, through June Louisville Metro increased its obligations to just over \$2.1 million or about 31 percent. In July, it signed agreements with four nonprofits that will increase its obligations by an additional \$4.77 million once the nonprofits acquire a targeted 27 properties to rehabilitate for resale or rent. The nonprofits already had 15 of the 27 properties under contract and had identified 9 more for purchase. If the planned activities are carried out in accordance with the agreements, Louisville Metro can obligate 100 percent of its program funding by September 20, 2010, including the required 25 percent set-aside for families at or below 50 percent of the area median income.

## **Louisville Metro Needs To Improve Reporting Internal Controls**

Louisville Metro needs to improve its procedures for reporting expenditures. Grantees are required to submit a detailed quarterly performance report using HUD's Web-based Disaster Recovery Grant Reporting system. The reports must also be posted prominently on the grantee's official Web site.

Louisville Metro consistently understated its expenditures. From the first quarterly performance report in June 2009 through the March 2010 report, Louisville Metro reported expenses of only \$44,376. It failed to include \$82,846 in administrative expenses incurred since July 2009. This deficiency occurred because Louisville Metro failed to verify information from its financial reporting system with program expenditure information before entering it into HUD's Disaster Recovery Grant Reporting system. Louisville Metro had been working with HUD's Office of Community Planning and Development staff to correct the reporting inaccuracies.

## **Conclusion**

Louisville Metro generally complied with program requirements with respect to its program activities and had made significant progress toward obligating its funds. However, it needs to strengthen its internal controls for program reporting. Improved controls will reduce Louisville Metro's risk of having funding recaptured and improve its reporting to HUD and the public.

## **Recommendations**

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

- 1A. Continue to monitor Louisville Metro's progress in obligating program funds to better ensure that Louisville Metro can obligate its remaining funds before the September 20, 2010, deadline.
- 1B. Require Louisville Metro to strengthen its internal controls for verifying expenditure information before entering it into HUD's Disaster Recovery Grant Reporting system.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- The program notice, related HUD documents, and Louisville Metro's program records from April 2009 through July 2010;
- 24 CFR (Code of Federal Regulations) Part 570 (Community Development Block Grants);
- Louisville Metro's original and revised program action plans;
- One hundred percent of Louisville Metro's program expenditures and its quarterly performance reports to HUD, along with supporting contracts and invoices; and
- Louisville Metro's agreements with the nonprofits and the nonprofits' contracts to purchase the properties.

All electronic data relied upon during the review were tested during the performance of the various review steps. We found the electronic data to be reliable.

We also interviewed HUD's Louisville, KY, Office of Community Planning and Development staff and the nonprofits' staffs and made site visits to verify the existence of the 14 properties the nonprofits had under contract at the time of our onsite work.

We performed our onsite audit work from June 28 through July 16, 2010, at Louisville Metro's Housing and Family Services Department, 745 West Main Street, Louisville, KY.

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

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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.

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## Relevant Internal Controls

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

- Controls over compliance with laws and regulations.
- Controls over reliability of data.

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:

- Controls over reporting program activity to HUD.

# Appendix A

## AUDITEE COMMENTS

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LOUISVILLE METRO HOUSING & FAMILY SERVICES  
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON  
MAYOR

September 3, 2010

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, GA 30303-3388

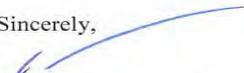
Subject: Review of Louisville/Jefferson County Metropolitan Government, KY,  
Neighborhood Stabilization Plan

Dear Mr. McKay:

We have reviewed the draft audit report regarding the review of the Louisville/Jefferson County Metropolitan Government, KY, Neighborhood Stabilization Plan. As the draft report relayed, there was one finding related to internal controls over reporting. Louisville Metro Department of Housing and Family Services (LMHFS) is committed to resolving all findings and concerns in a timely manner. As such, corrective actions have been formulated and are being instituted.

Enclosed, please find LMHFS' Auditee Comments to the draft audit report and supporting internal procedures which outline the corrective actions which have already been instituted and should resolve this finding. If you have any further questions regarding this information, please contact David Howard at 574-3107. Thank you.

Sincerely,

  
Christina Heavrin, Interim Director

Cc: Richard Knight, Senior CPD Rep – Louisville Field Office  
Adria Johnson, Assistant Director LMHFS  
David Howard, Director Housing and Community Development Division

[www.louisvilleky.gov](http://www.louisvilleky.gov)

745 W. MAIN ST. STE. 300 LOUISVILLE, KENTUCKY 40202 502.574.3541 FAX: 502.574.4199

**Comment 1**

## **OIG Evaluation of Auditee Comments**

**Comment 1** Louisville Metro enclosed with its comments changes to its policies and procedures with respect to reporting to HUD. If Louisville Metro implements and follows the changes, more accurate reporting to HUD should result.