



Issue Date January 21, 2011
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Audit Report Number 2011-AT-1004
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TO: Gary Dimmick, Director, Office of Community Planning and Development,  
Greensboro, NC, 4FD

//signed//

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

SUBJECT: Mecklenburg County, NC, Mismanaged Its Shelter Plus Care Program

## **HIGHLIGHTS**

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

At the request of the U.S. Department of Housing and Urban Development's (HUD) Greensboro, NC, Director of Community Planning and Development, we reviewed Mecklenburg County's (County) administration of its Shelter Plus Care program (program). The Greensboro Office of Community Planning and Development staff performed onsite monitoring during August 2010 and found many indications of deficiencies in the County's administration of the program.

Our objectives were to determine whether the County paid for only eligible program administrative expenses; housed its participants in decent, safe, and sanitary units; and properly documented its program participant files.

### **What We Found**

The County mismanaged its program. It paid program administration expenses without adequate supporting documentation; housed participants in units that were not decent, safe, and sanitary; and failed to ensure that participant files were properly documented in compliance with HUD's requirements. These deficiencies occurred because the County failed to develop and implement a system of internal controls, including controls needed to ensure that the contractor hired to administer the program complied with HUD's requirements. As a result, the County spent \$441,100 for unsupported program costs, \$11,047 for ineligible

costs, and \$14,028 in housing assistance payments for units that were in material noncompliance with housing quality standards.

### **What We Recommend**

We recommend that the Director of the Greensboro Office of Community Planning and Development require the County to develop and implement an adequate system of internal controls to ensure that it complies with all program requirements. These controls must be designed to ensure that

- Only eligible and adequately supported administrative expenses are paid with program funds,
- Housing units comply with HUD's housing quality standards, and
- Participant files are documented to show compliance with HUD's program requirements.

The County must repay \$25,075 in ineligible expenses from non-Federal funds. It must also provide documentation showing that \$441,100 in unsupported expenses was eligible or repay that amount from non-Federal funds.

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 the findings with County and HUD officials during the audit. We provided the draft report to the County on December 22, 2010, and discussed the findings with County officials at an exit conference on January 5, 2011. The County provided its written comments on January 13, 2011. County officials expressed general agreement with the findings and recommendations but had several comments regarding the wording of the report.

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

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## **BACKGROUND AND OBJECTIVES**

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Mecklenburg County (County) was created in 1868 under the North Carolina State constitution. The County is governed by a nine-member county commission and a county manager. The current county manager is Harry Jones. Mecklenburg County Area Mental Health is the County's human service agency which manages and provides an array of mental illness, substance abuse, and developmental disability services. It is also the County agency responsible for the administration of the U.S. Department of Housing and Urban Development's (HUD) Shelter Plus Care program (program). The County's program records are located at the Samuel Billings Center, 429 Billingsly Road, Charlotte, NC.

The County contracted with Mecklenburg Open Door, a subrecipient, from October 2005 through August 2010 to administer its 15 program grants. The subrecipient was to

- Pay participant rents, utilities, and security deposits;
- Perform housing quality standards inspections;
- Review and certify initial applications and annual certifications;
- Determine rent reasonableness and annually update the fair market rents;
- Determine participant income and rental share; and
- Maintain documentation.

As compensation, the subrecipient received up to 4 percent of the rents for housing quality standards inspections and up to an additional 4 percent for the other administrative costs.

Regulations at 24 CFR (Code of Federal Regulations) 582.400 require HUD to hold the County responsible for the overall administration of the program, including the oversight of subrecipients. Thus, the County cannot contract away its responsibility for following program requirements.

The County received HUD funds to administer 199 housing units under the program. It used the funds to provide rental assistance to eligible families. During fiscal years 2008 through 2010, HUD provided the County with about \$4 million in program funding.

HUD's Greensboro, NC, Office of Community Planning and Development is responsible for overseeing the County's program. A monitoring report issued by HUD on December 3, 2010, indicated that HUD had placed the latest grant on hold until the County decided whether it wanted to continue to administer the program.

Our objectives were to determine whether the County paid for only eligible program administrative expenses; housed its participants in decent, safe, and sanitary units; and properly documented its program participant files.

# RESULTS OF AUDIT

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## Finding 1: The County Mismanaged Its Program

The County mismanaged its program. It paid program administration expenses without adequate supporting documentation; housed participants in units that were not decent, safe, and sanitary; and failed to ensure that participant files were properly documented to show compliance with HUD's requirements. These deficiencies occurred because the County failed to develop and implement a system of internal controls for the program, including controls needed to ensure that the contractor hired to administer the program complied with HUD's requirements. As a result, the County spent \$441,100 for unsupported program costs, \$11,047 for ineligible costs, and \$14,028 in housing assistance payments for units that were in material noncompliance with housing quality standards.

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### **The County Spent Grant Funds for Unsupported and Ineligible Costs**

The County used program funds for administrative costs that were not supported by adequate documentation or were in excess of contract limits. Mecklenburg Open Door (subrecipient) submitted invoices to the County for approval, and the County used the invoices to obtain reimbursement for program costs. The County accepted the subrecipient's invoices although they lacked adequate supporting documentation showing that they were for eligible grant activities. It also failed to enforce contract terms limiting the amount of reimbursable administrative costs. As a result, the County used \$441,100 in HUD funds for unsupported program costs and another \$11,047 for excessive administrative costs.

#### The County Used Grant Funds for Unsupported Costs

The County spent program funds for administrative costs based on unsupported subrecipient invoices. Federal policies in Office of Management and Budget (OMB) Circular A-87 require that costs for administering Federal grants be necessary, reasonable, and adequately documented. The initial contract required the subrecipient to complete and submit detailed documentation for payroll and other administrative costs such as postage, mileage, and phone charges. We reviewed all 60 monthly invoices, valued at about \$6 million, dated from October 2005 through September 2010. The County improperly paid program administrative costs totaling \$418,127 for 59 invoices. The invoices either had no support or lacked adequate support to determine eligibility for administrative costs. The County drew down an additional \$22,973 in program funds for which it had no invoice. For the lone September 2010 invoice, the County claimed no administrative costs.

The County paid unsupported program costs because it had failed to develop and implement a system of internal controls to ensure that it only reimbursed adequately supported and eligible program costs. County staff members stated that they processed the subrecipient's invoices without adequate supporting documentation because the County had no procedures defining what was acceptable. A staff member who processed the invoices stated that he was not aware that the contracts required the subrecipient to support its administrative costs.

#### The County Spent Grant Funds for Ineligible Costs

The County spent program funds for administrative costs that exceeded its subrecipient contract limits. Federal requirements at 24 CFR 582.105 limited administrative costs to a maximum 8 percent of the grant funds. The subrecipient contracts specified that the 8 percent limit would be split equally, up to 4 percent each, between the housing quality standards inspections and other administrative costs. The subrecipient charged a single 8 percent rate on all invoices instead of applying the two separate 4 percent rates. From January through August 2010, the County paid invoices that exceeded the 4 percent maximum for other administrative costs by \$11,047.

### **The County's Program Units Did Not Meet HUD's Housing Quality Standards**

#### Summary of Inspection Results

During September 2010 we inspected a random sample of 10 program units from the County's 199 units under lease. We selected the units from among those that the subrecipient had inspected and passed between June and August of 2010. Eight of the units failed to meet HUD's housing quality standards and all were in material noncompliance. As a result, tenants lived in units that were not decent, safe, and sanitary, and the County paid property owners \$14,028 in housing assistance for units that did not meet standards.

HUD regulations at 24 CFR 582.305 require that assisted units meet housing quality standards as prescribed under 24 CFR 982.401. Therefore, assisted program units must meet housing quality standards throughout the assisted tenancy.

The 10 units inspected had a total of 49 housing quality standards violations, and the 8 failed units were in material noncompliance because they had 1 or more material deficiencies that existed at the time of the previous inspection. Electrical violations were the most frequently occurring deficiency. Seven of the eight failing units had one or more such deficiencies. The following table lists the most frequently occurring deficiencies.

Type of deficiency	Number of deficiencies	Number of units	Percentage of units
Electrical hazards	14	7	70
Miscellaneous			
Fail items	7	4	40
Windows	6	4	40
Exterior surfaces	6	3	30
Floors	4	4	40

The following pictures represent fail conditions that existed at the time of the subrecipient's previous inspection.



Two Missing breakers on right side of panel leaves high voltage wiring exposed



Badly damaged foundation vent allows easy entry of vermin



Badly deteriorated ramp creates tripping/falling hazard

The County paid property owners \$14,028 in housing assistance for the eight failed units. County staff members stated that they were confused about their monitoring responsibilities and did not perform monitoring of the subrecipient's housing quality standards inspections. We provided copies of our inspection forms to the County so that it could ensure that the property owners corrected all deficiencies.

### **The County Failed To Adequately Document Participant Files**

The County failed to maintain required program documents in the participant files. We reviewed a sample of 22 participant files and determined that all were missing some type of required documentation. The missing information included verifications of participant eligibility and annual income, housing quality standards documentation, rent calculations, and rent reasonableness information. As a result, the County could not assure HUD that its funds were used to assist eligible individuals and/or eligible housing units in accordance with program requirements.

#### Participant Eligibility

According to Federal guidance in 24 CFR 582.5, program eligibility is limited to persons who are homeless, disabled, and very low income. For 20 of the 22 files reviewed, the County failed to document that the participant was eligible.



### Housing Quality Standards

Of 22 participant files reviewed, 16 lacked documentation showing compliance with housing quality standards requirements. Deficiencies included the failure to

- Perform annual inspections in a timely manner,
- Adequately complete the inspection forms,
- Document all inspections in the files,
- Fail units that had legitimate fail items noted during inspection,
- Document when or whether a failed unit passed upon reinspection,
- Indicate that all of the unit's rooms were inspected,
- Accurately indicate the presence/absence of windows,
- Properly fail bathrooms for lack of ventilation when neither a window nor a vent fan was present, and
- Note that identified deficiencies were emergency items requiring repair within 24 hours.

### Annual Income Verifications/Participant Rents/Housing Assistance Payments

Guidance in 24 CFR 582.310 requires grantees to verify each participant's income on an annual basis and calculate the participant's share of the rent and HUD's housing assistance payment to the landlord. Of the 22 files reviewed, 17 lacked documentation showing that the County had verified the participants' income annually. In addition, 19 files had either an incorrect tenant rent calculation or did not contain adequate documentation to support the amount of either the participant rent or housing assistance payment.

### Rent Reasonableness

Federal regulations at 24 CFR 582.305(b) require that HUD only provide assistance for units for which the rent is reasonable. It is the responsibility of the grantee to determine whether the rent charged for the unit receiving rental assistance is reasonable in relation to rents charged for comparable unassisted units. Of 22 files reviewed, 20 lacked documentation showing that the County performed a rent reasonableness determination before executing the participant's initial lease.

County staff members stated they were confused about their monitoring responsibilities and did not perform monitoring of participant files until February 2010 after they received HUD training. The staff members also reported that they only contacted the subrecipient regarding documentation in participant files when they needed to gather information for annual reports to HUD.

## **The County Recently Implemented Program Policies and Procedures**

In June 2010, the County implemented new program controls in the form of program policies and procedures. However, the controls were not comprehensive enough to ensure that the problems cited in this report would not be repeated. In addition, at the end of August 2010, the County cancelled the contract with its subrecipient and brought program administration in house. The County was considering alternative entities to administer the program.

## **Conclusion**

The County's failure to develop and implement an adequate system of internal controls resulted in payment of program costs without adequate supporting documentation; housing participants in units that were not decent, safe, and sanitary; and failing to ensure that participant files were properly documented in compliance with HUD's requirements. If the County continues to administer the program, it must implement an appropriate system of internal controls to better assure HUD that program funds are used in accordance with program requirements.

## **Recommendations**

We recommend that the Director of HUD's North Carolina Office of Community Planning and Development require the County to

- 1A. Develop and implement a system of internal controls to better ensure that the County complies with HUD's program requirements. Specifically, the controls must be designed to ensure that (1) only eligible program costs are paid, (2) program units meet housing quality standards, (3) housing assistance payments are made on behalf of only eligible units, (4) program participants are eligible, (5) participant income is verified annually, (6) participant rents and housing assistance payments are calculated correctly, and (7) rents are reasonable.
- 1B. Provide support for \$441,100 in unsupported program costs or repay its program using non-Federal funds.
- 1C. Repay its program \$11,047 in ineligible program administrative costs from non-Federal funds.

- 1D. Repay its program \$14,028 from non-Federal funds for housing assistance payments made for units in material noncompliance with housing quality standards.
- 1E. Reinspect the eight units failing minimum housing quality standards and verify that the landlords took appropriate corrective action to make the units decent, safe, and sanitary. If landlords failed to take appropriate action, the County should abate the rents or terminate the contracts.
- 1F. Perform a special inspection of all program units to determine the extent of housing quality standards noncompliance. The County should report the results of these inspections to you, along with an explanation of how the results were used to develop its new internal control plan.

## SCOPE AND METHODOLOGY

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Our objectives were to determine whether the County paid for only eligible program administrative expenses; housed its participants in decent, safe, and sanitary units; and properly documented its program participant files.

To accomplish our objectives, we reviewed

- Program regulations at 24 CFR 582 and 24 CFR 982.401, OMB Circular A-87, and HUD's Greensboro Office of Community Planning and Development's correspondence and files pertaining to the County's program.
- The County's policies and procedures manuals, list of program-assisted units, program participants' files, Line of Credit Control System draw requests from October 2005 through August 2010, two latest audits, and organizational charts.

We also interviewed the County employees and HUD's Greensboro staff involved with oversight of the County's program.

We tested the computer-processed data supplied by the County. The data tested (tenant register and electronic spreadsheets related to program administrative costs) were not always reliable; therefore, we placed no reliance on the information during the performance of the audit.

From a universe of 199 program units, we selected a random sample of 15 recently inspected units for inspection (10 to inspect and 5 replacement units). We also selected a representative sample of 22 program participant files for general review. The results from these samples pertain only to the units/files sampled and not to the universe as a whole.

We performed our onsite work from September 15 through November 5, 2010, at the Mecklenburg County Area Mental Health office located at Samuel Billings Center, 429 Billingsly Road, Charlotte, NC. The review generally covered the period July 1, 2008, through June 30, 2010, and was expanded as necessary.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# 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:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded 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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The County did not have controls for effective program administration.
- The County did not have internal controls in place to ensure that its program units met housing quality standards.
- The County did not have controls in place to ensure that participant files were properly documented in compliance with HUD requirements.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1B		\$441,100
1C	\$11,047	
1D	<u>\$14,028</u>	_____
Total	<u>\$25,075</u>	<u>\$441,100</u>

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

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### Ref to OIG Evaluation

### Auditee Comments



**MECKLENBURG COUNTY**  
**Area Mental Health, Developmental Disabilities and**  
**Substance Abuse Services**

429 Billingsley Rd., 2<sup>nd</sup> Floor  
Charlotte, NC 28211-1098

January 13, 2011

Mr. James D. McKay  
Regional Inspector General for Audit  
US 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

Dear Mr. McKay:

We have received the draft report from HUD and we have met in person with representatives from the Knoxville HUD office. HUD OIG has given us an opportunity to respond to the report.

As noted in the draft report, Mecklenburg County Area Mental Health (AMH) has received several Shelter Plus Care (S+C) grants. Beginning in 2005, Mecklenburg County contracted with Mecklenburg Open Door, a private not for private entity to carry out several of the grant's required activities. Mecklenburg County maintained overall responsibility for the grants and the specific function of determining participant eligibility.

In September 2010 there were one hundred ninety-nine (199) participants in the combined S+C grants. During the site visit of the Knoxville HUD representatives, a subset of the participant files and housing units were reviewed and inspected.

After reviewing the draft report, Mecklenburg County has a number of comments. These are noted in Attachment 1. The Greensboro field office representatives are working with us to revise existing processes, develop and implement a multi-step corrective action plan that will result in tighter fiscal and programmatic controls. The action plan is documented in Attachment 3 of this response. With respect to repayment, Mecklenburg County will provide adequate supporting documentation for the

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unsupported administrative costs or will repay the costs. We understand that funds repaid may be applied to existing Shelter Plus Care grants and may allow for assistance to additional participants.

Mecklenburg County appreciates the professionalism and assistance of those involved with this review and site visit.

Sincerely,



Carlos Hernandez  
Acting Director

Attachment 1: Mecklenburg Comments to the Draft Report  
Attachment 2: Response and actions taken to address Recommendations  
Attachment 3: Letter to Greensboro field office, December 30, 2010

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**Attachment 1: Mecklenburg Comments to Draft Report**

Comment 1

**Section: What We Found**

**Page 1**

Draft report language: "housed participants in units that were not decent, safe, and sanitary;..."

Requested replacement language: "housed eight participants in units that did not meet housing quality standards..."

Comment 2

**Section: Results of Audit**

**Page 6**

Draft report Language: Mecklenberg Open Door...(spelling error)

Requested replacement language: "Mecklenburg Open Door..."

Comment 3

**Section: Results of Audit**

**Page 6**

Draft report language: "As a result, the County used \$418,127 in HUD funds for unsupported administrative costs..."

Requested replacement language: "As a result, the County used \$441,100 in HUD funds for unsupported administrative costs over a five year period..."

Comment 4

**Section: The County Spent Grant Funds for Unsupported and Ineligible Costs**

Draft report language: "The County paid an additional \$22,973 for which there was no invoice."

Requested replacement Language: "The County received an additional \$22,973.00 for which there were no invoices."

Comment 5

**Section: Results of Audit, Summary of Inspection Results**

**Page 7**

Draft report language: "Program participants lived in units that were not decent, safe, and sanitary....meet standards."

Requested language: Delete the first paragraph and replace with

"We selected a random sample of 15 recently inspected units for inspection (10 primary units to inspect and 5 alternates.) Results from this sample pertain only to the units sampled and were not projected to the universe of 199 program participants."

Comment 6

**Section: Participant Eligibility**

**Page 9**

Draft report language: "For 20 of the 22 files reviewed, the County failed to document that the participant was eligible."

Requested additional language: "However, the eligibility criteria set used in the review was the current eligibility criteria. The homelessness definition changed at least twice over the duration of the grants and the disability criteria changed at least once."

Comment 7

**Section: The County Recently Implemented Program Policies and Procedures**

**Page 10**

Draft report language: "However, the controls were not comprehensive enough to ensure that the problems cited in this report would not be repeated."

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Requested additional language: "...repeated. The County is working closely with the Greensboro field office to revise existing processes and develop and implement detailed policies and procedures, including orientation of new employees to ensure compliance with HUD program requirements."

Comment 1

**Section: Conclusion**

**Page 10**

Draft report language: "..housing participants in units that were not decent, safe, and sanitary;..."

Requested language: "..housing participants in units that did not meet housing quality standards."

Comment 1

**Section: Recommendations:**

**Page 11**

Draft report language: 1.E "...appropriate corrective actions to make the units decent, safe, and sanitary."

Requested replacement language: "appropriate corrective actions."

Comment 8

**Section: Scope and Methodology**

**Page 12**

Draft report language: "..no reliance on the information during the performance of the audit."

Requested additional language: "...no reliance on the information during the performance of the audit. This data set included invoices and supporting documentation of administrative fees and housing assistance. It did not include data from the County's accounting system."

Comment 9

**Section: Appendix A**

Draft report language: Table of questioned costs

Comment: This table is misaligned. Total column is incorrect based on other parts of the report.

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**Attachment 2: Response and actions taken to address recommendations****Recommendations 1A**

Mecklenburg County is working closely with the Greensboro field office to develop and implement comprehensive, specific and detailed procedures including orientation of new employees to ensure compliance with HUD program requirements. Mecklenburg County terminated its contractual relationship for the management of Shelter Plus Care on August 31, 2010. Mecklenburg County is directly managing the Shelter Plus Care program. See Attachment 3 for specifics.

**Recommendation 1B**

Mecklenburg County will provide documentation in support for the \$441,100 in unsupported program costs and will repay any amount that remains unsupported using non-Federal funds.

**Recommendation 1C**

Mecklenburg County will repay \$11,047 of ineligible program administrative costs, using non-Federal funds.

**Recommendation 1D**

Mecklenburg County will repay \$14,023 for housing assistance payments that were made for units that were materially non-compliant with housing quality standards.

**Recommendation 1E**

Mecklenburg County has addressed the eight units identified during this site visit as not meeting standards. One of the participants has moved to another housing unit. Landlords have agreed to and are correcting the deficits in the remaining seven units.

**Recommendation 1F**

Mecklenburg County has developed a schedule of re-inspections of all units, timelines for landlord corrective actions if needed, and relocation of participants when needed for uncorrected housing quality issues. Mecklenburg County is working closely with the Greensboro office.

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**Attachment 3: Letter to Greensboro field office, December 30, 2010**

Date: 30 December 2010

To: Gary A. Dimmick, Director, Office of Community Planning and Development  
Libby Stanley, Sr. CPD Representative

Fr: Dennis Knasel, Director Consumer Affairs and Community Services

Subj: Response to letter dated December 3, 2010: Corrective Actions Taken

Based on the findings Ms. Stanley identified at the August 12, 2010 exit conference, Area Mental Health (AMH) staff immediately took the following corrective actions:

- Made a commitment to bring total administration of Shelter Plus Care program in-house.
- Terminated the Shelter Plus Care contract with Mecklenburg Open Door (MOD) effective August 31, 2010.
- Reimbursed MOD for the September rental subsidies that were paid however did not pay MOD for any administrative expenses for the month of September.
- Obtained Tenant/participant list, landlord contact list and utility vendor list from MOD.
- Notified landlords and vendors of change and obtained current and accurate information to establish vendor accounts with Mecklenburg County.
- Began participant notification process based on annual re-certification dates.
- Obtained participant charts from MOD and conducted a quality control audit of charts.
- Reassigned current program and fiscal staff resources to Shelter Plus Care activities; AMH has not sought reimbursement of expenses related to administering the program during the clean up phase.
- Developed S+C activity logs for tracking administrative and housing inspection activities per grant; staff also prepare and submit individual timesheets per grant activities.
- Developed a "work out plan" to bring all aspects of the program into compliance.
- Established weekly S+C meetings to include management, supervisory and line staff; the purpose of the meetings is to establish and develop effective program and fiscal processes, to ensure compliance, accuracy and timeliness across

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program and fiscal lines and to verify the status of S+C draw downs and available grant balances.

In addition, Area Mental Health and County staff have established the following procedures and activities, as corrective actions, specific to each of the findings:

Finding 1: requirements at 24 CFR Part 35.115, 24 CFR Part 35.1210(b), 24 CFR Part 35.1215(a) and 24 CFR Part 35.1220. Mecklenburg County Area Mental Health is not in compliance with income calculation requirements at 24 CFR Part 582.310(b)(2); rent reasonableness requirements at 24 CFR Part 582.305(b); HQS at 24 CFR Part 582.305(a); and LBP

Corrective Actions:

- Developed a participant file structure format and check sheets to monitor timely collection and submission of data.
- Rebuilt participant files and conducted an internal participant file audit.
- Contacted landlords and participants to obtain fully-executed current leases, if one was not present in participant file, and established a “shared folder” with financial services staff to ensure accuracy of monthly rental subsidy payments.
- Established a formalized re-certification process to collect timely and accurate participant income documentation and to determine utility allowance, rent calculations and rent reasonableness.
- Conducted re-certification group sessions twice per month, and met with participants on an individual basis when requested; sessions now occur 60 days prior to a participant’s annual re-cert date.
- Set schedule for housing inspections for “re-cert” participants and for participants who chose to move to ensure housing units meet all applicable HQS and lead paint hazard requirements. The projected target is to complete new inspections and re-inspections within 30 days of receipt of updated participant documentation.
- Established “re-location” process for participants whose housing units do not meet minimum inspections requirements, or whose landlord does not comply with required repairs within 30 days of notification of inspection findings.
- Received additional technical assistance, through consultation and shadowing, from the Charlotte Housing Authority specific to housing inspections requirements, protocols and procedures.

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Finding 2: Mecklenburg County Area Mental Health was not in compliance with the required internal controls (24 CFR Part 582.340(a) and 24 CFR Part 85.20(b)(3)); grant funds were expended on ineligible costs (24 CFR Part 582.100-115, 582.340(a) and OMB Circular A-87 Appendix A(C); draws were not supported by adequate source documentation (24 CFR Part 582.340(a), 24 CFR Part 85.20(b)(6)); indirect costs have been charged to the grant without an approved Indirect Cost Rate Proposal (OMB Circular A-87, Appendix C and E) and charges for salaries and wages were not supported by personnel activity reports or equivalent documentation (OMB Circular A-87, Appendix B(8)(h)).

Enhanced Internal Controls of the S+C program includes the following:

- S+C program staff will prepare invoices from rent roll to process rent and utility charges for eligible consumers. The prepared forms are reviewed and signed off by the Housing Coordinator. The forms are then routed to AMH Financial Services.
- Monthly invoices from S+C housing program are sent to AMH Financial Services and must be received by the 15th of each month for advance payment of rents. All invoices will be date stamped upon receipt by AMH financial services.
- Invoices are reviewed/audited within 3 business days. Required supporting documentation includes the following: Landlord requisition form; a copy of a valid lease agreement; utility bills.
- Requisition forms are routed to be keyed and scanned into the Mecklenburg County financial system (2 business days).
- Keyed forms are approved and submitted for final approval by Corporate Finance (the County Finance Department) within 1 business day.
- County Finance department audits and approves requisition for payment to vendors (within 2-3 business days).
- Payment is released to vendors (landlord & utility companies) for services rendered (2-3 business days).
- LOCCS form is sent to County Grants unit for processing reimbursement for HUD drawdown request (30 days). AMH Finance prepares spreadsheets to send to the Greensboro Field Office to review and temporarily remove the payment suspension.
- AMH Sr. Fiscal Analyst will review general ledger monthly to ensure that revenue and expenses are accurately booked to each grant.

County Finance (Corporate)

Process for reviewing/requesting funds via LOCCS for Shelter Plus Care Program includes:

- LOCCS/VRS forms are completed by AMH Finance and sent to County Finance (Grants Manager)
- The forms are reviewed by the Grants Manager:
  - Transactions are confirmed to the general ledger
  - Period covered by the request is confirmed

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- Disbursement type is confirmed
  - Grantee/project number and information is confirmed
  - Sponsor information is confirmed, if applicable
  - Rental assistance information is confirmed
  - Line item budget amounts are confirmed
  - Total for request is confirmed
- After confirmation of the above, the Grants Manager will request the funds using the LOCCS system.
  - The review of the LOCCS form and the requests for funds are to be completed within 5 business days of receipt of the completed LOCCS form from AMH Finance.
  - The completed LOCCS form is filed in the Shelter Plus Care Program and a copy is used as a reference when funds are received from HUD.
  - The Grant Department in Finance will monitor the receipts log to determine the receipt of the funds from HUD.
  - Once the funds are received from HUD, the funds are recorded as revenue to the general ledger.
  - The Grants Department in Finance will conduct the following quarterly reviews:
    - Grant and drawdown review via the LOCCS system using the Grant and Voucher Query functions in LOCCS
      - Reconciliations will be conducted to determine grant status including balance available
      - Reconciliations will be conducted to determine that requested draw downs are processed
    - Grant transaction review to determine proper recording of transactions
      - Grant performance period review to determine grant status
      - Grants reporting requirements review
      - Grant closing status review

If you need any additional information or further clarification regarding the information included in the corrective actions, please contact me at 704.336.4441 or [Dennis.Knase1@MecklenburgCountyNC.gov](mailto:Dennis.Knase1@MecklenburgCountyNC.gov)

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## OIG Evaluation of Auditee Comments

- Comment 1** HUD regulations require that assisted units be decent, safe, and sanitary in order to qualify for assistance. The enforcement of HUD's Housing quality standards through the performance of proper inspections is the mechanism for making that determination. Since the eight units were in material noncompliance with housing quality standards they could not be considered decent, safe, and sanitary. As requested by officials during our exit conference with the County, we added photographs to the report in order to illustrate the types of housing quality standards violations we found.
- Comment 2** We corrected the cited spelling error.
- Comment 3** We changed the total unsupported program cost amount in the cited sentence as requested. The original amount shown included only the unsupported program costs related specifically to administrative expenses, while the figure of \$441,100 includes all unsupported program costs. The paragraph following the questioned sentence makes clear that the time period for the questioned costs, October 2005 through September 2010, was five years.
- Comment 4** We changed the wording of the sentence to show that the County drew down the funds but had no invoice to support how the funds were used.
- Comment 5** We revised the language in the cited paragraph, and our Scope and Methodology section, to clarify that our sample was selected from 199 program units and that the sample results pertained only to those units sampled, not the universe as a whole.
- Comment 6** Although the homelessness definition and disability criteria may have changed during our audit period, the requirement for verification of both homelessness and disability did not change.
- Comment 7** We commend the County's efforts to correct its deficient program policies and procedures. The County's complete response detailing the steps it has taken, or plans to take, to improve its program is included in this report.
- Comment 8** We inserted information in the cited paragraph to detail the specific computer processed data we reviewed and evaluated.
- Comment 9** We made corrections to ensure that the table columns were properly aligned and that totals were consistent throughout the report.