



FULTON COUNTY, GEORGIA
OFFICE OF THE COUNTY AUDITOR
Housing and Human Services Department
HOME Program Grant Infrastructure Audit

September 8, 2014

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Introduction

The Office of the County Auditor completed a review of the grant infrastructure for the Fulton County's HOME Investment Partnerships (HOME) Grant administered by the Housing Division of the Housing and Human Services Department (HSHSD). At the request of the Fulton County Board of Commissioners, we reviewed the operations and grant infrastructure of HSHSD to address concerns pertaining to the administration of the HOME Program funds.

Background

The HOME Investment Partnerships Program is a program that provides grants to states and localities that are used in partnership with local non-profit groups to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or home ownership. HOME funds are awarded annually as formula grants to participating jurisdictions (PJs). The program's flexibility allows states and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, rental assistance or security deposits. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The Housing Division is a division of the Housing and Human Services Department located at 137 Peachtree Street in Atlanta, Georgia. The Housing Division is a recipient of and grant administrator for various federal housing grants from the U.S. Department of Housing and Urban Development (HUD), which includes funds awarded under the HOME Program, Community Development Block Grant (CDBG) and the Neighborhood Stabilization Program (NSP).

HSHSD experienced a loss of approximately \$1.2M of HOME Program funds in January, 2014. These funds were de-obligated by HUD due to HSHSD's failure to fully execute contracts for viable projects. HSHSD was also at risk of losing an additional \$1.4M in HOME Program funds on April 30, 2014 for this same reason. These funds were not de-obligated after intervention by the Board of Commissioners.

Objective

The objective of our audit was to determine if the existing grant infrastructure is adequate to administer the HOME Program grant and to determine why there are recurring incidents of funds possibly being recaptured and de-obligated by HUD.

Scope

The period covered by this audit is January 1, 2011 through April 30, 2014.

Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. To accomplish our objectives, we:

- Identified and reviewed policies, procedures, applicable laws, codes, regulations and board resolutions;
- Interviewed and performed walkthroughs with key personnel;
- Utilized Fulton County's Asset Management System (AMS) and HUD's Integrated Disbursement and Information System (IDIS) queries to identify the source of funding, award amounts, vendor payments, funding draw down's and potential de-obligation amounts;
- Analyzed grant budget establishment procedures, invoices, payment processing and authorizations required to issue payments and obligate funding;
- Analyzed contract execution, verification and approval procedures; and
- Evaluated the business practice utilized by the HSHSD from grant inception through project completion to ensure that adequate internal controls exist.

Generally Accepted Government Auditing Standards require that we plan and perform the audit to obtain sufficient and 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 listed in this report.

Findings and Recommendations

Finding 1 – Failure to Comply with Audit Recommendations (IA/HUD)

Best business practices recommend taking corrective action to address any known deficiencies. Management failed to address and implement corrective actions identified in the external and internal audit reports. Failure to address audit findings indicates ineffective leadership. As a result, HSHSD jeopardizes existing and future funding for its programs.

Recommendation

HSHSD should take immediate action to implement corrective measures identified in both internal and external audits. These actions should include a detailed plan with a timeline for implementation of each audit finding. In addition, the implementation plan should be monitored to ensure corrective actions are effective.

Finding 2 – Unreimbursed HUD Expenditures

All HUD program reimbursements should be in accordance with applicable HUD guidelines. Our audit revealed HSHSD entered into a contractual agreement with the Housing Authority of Fulton County to provide renovation services for the Terraces at East Point. An amount of \$675,902.95 of NSP funding was disbursed for service of which \$185,623.25 was returned to Fulton County. This check represented a partial refund of the expenses incurred for the acquisition of the Terraces of East Point Apartments, earnest money for the purchase of the Stella Royale Apartments and expenses paid to vendors for legal and initial construction development; neither of which properties were ever purchased. It should be noted that the HOME Program funds should have been used for this transaction and not NSP funds. NSP funds were used as all HOME Program Funds had been exhausted. The difference of \$490,279.70 was

retained by the Housing Authority of Fulton County to cover additional expenses incurred and to cover the cost of their developer's fee. HUD informed Fulton County that the Housing Authority of Fulton County could not act in the capacity of a developer but only as a sub-recipient. In their capacity as a sub-recipient the Housing Authority of Fulton County was only allowed to receive payment for incurred cost; not developer fees. HUD requested the County to amend the contract; however, the Housing Authority of Fulton County refused to sign the amendment. HUD would not allow the drawdown of funds because the Housing Authority's role was not clearly identified nor were expenses adequately supported. As a result, Fulton County's General Fund was not reimbursed for the \$490,279.70 it disbursed to the Housing Authority of Fulton County.

Recommendation

Community Specialists should secure appropriate documentation to ensure reimbursement by HUD and the roles of the sub-recipients are clearly defined in the contract. Efforts should be made to ensure these roles should be fully understood by all parties involved.

Finding 3 – Community Specialist's Lack of Access to Financial Systems

Community Specialists are ultimately responsible for the successful financial execution of their assigned HUD program. Currently all Community Specialists do not have access to the County's Asset Management System (AMS). Failure to grant financial systems access to Community Specialists will result in their inability to effectively monitor program obligations and expenditures to periodically validate their program's financial progress.

Recommendation

HSHSD management should ensure that all Community Specialists have inquiry access to AMS in order to effectively monitor program obligations and expenditures.

Finding 4 – Failure to Reconcile AMS and IDIS in Accordance with HUD Guidelines

HUD recommends the regular reconciliation of financial records. HUD IDIS guidelines, Section 5, sub-section 7-3 states:

“Obligations, expenditures, and program income submitted to HUD in the Consolidated Performance and Evaluation Report (CAPER), or other applicable report(s), should reconcile with the program participant's accounting records.”
[24 CFR 570.504, 24 CFR 570.507, 24 CFR 91.520]

HSHSD does not perform formal reconciliations of the AMS ledger and the IDIS system. The following conditions in its internal control environment have made the reconciliation process difficult:

- Findings from the Federal government's Office Management Group issued an opinion that the IDIS system does not conform to GAAP or government accounting guidelines;
- Due to limitations within AMS, users are not able to fully reconcile historical data;

- HSHSD Community Specialists do not have access to both AMS and IDIS. As a result, they are not able to verify grant expenditures and identify discrepancies.
- The Fulton County Finance Department did not provide a report to the HSHSD that identified posted expense items or drawn-downs in the IDIS system until May of 2014. The IDIS system does not provide a usable audit trail of expense and draw-down entries, which made reconciling the IDIS balances inefficient and difficult.
- The April 2014 Open Balances Report from the IDIS system was found to be incomplete. Inaccurate reports of outstanding balances should not be relied on for a reconciliation process. This was not sighted in the previously referenced OMB opinion but was noted in our review of the financial records.
- One of the two accounting specialists was laid off due to a lack of funding.

Based on our findings, the financial management internal controls over the Fulton County HOME Program have not been adequately developed in accordance to HUD guidelines or OMB Circular 133. HSHSD does not conduct a management review of financial records. The current HSHSD financial oversight does not comply with HUD Guidelines or GAAP. The inadequate oversight increased risk exposures for County services and assets.

Recommendation

While there are challenges in completing historical reconciliations between AMS and IDIS due to system limitations, the systems can be reconciled by each individual year using source documents and the IDIS PR07 Report. The Finance Department should provide HSHSD with a complete detailed listing of all IDIS entries. HSHSD should work with HUD officials to verify and identify grant funding sources and expenditures in an effort to track and reconcile their records. All HOME Community Specialists should be granted access to the AMS to review program expenses and income activity. Additionally, an adequate level of staffing should be authorized for HSHSD to ensure the IDIS and AMS systems are routinely reconciled in a timely manner.

Finding 5 – Failure to Review Performance Evaluations of Community Housing Development Organization (CHDO)

The 2013 revised HUD Guideline 24 CFR 92.504(a) - *Participating Jurisdiction Responsibilities: Written Agreements, On Site Inspections*, require management to review the performance evaluations of CHDOs and provide suggested steps a participating jurisdiction (PJ) can follow for this process.

The single active Fulton County HOME Program CHDO, the Atlanta Community Development Program (ANDP) initiated two projects (Hamilton and Summerwood projects) that were not successful due to operational breakdowns within ANDP. Consequently, funds had to be de-obligated in the IDIS system and used for two future projects; Stanton Road and Providence Place. Under the management of ANDP, both the Stanton Road and Providence projects had funds de-obligated in the IDIS system in part due to material costs that were not part of the original projects’ cost estimates.

HSHD Management did not adequately monitor ANDP's performance capabilities. HSHD could not provide any documentation that indicated if any CHDOs had been evaluated or progress reports completed. Additionally, no documentation could be located that indicated why ANDP was given IDIS committed funds after they were unsuccessful in two earlier projects. HUD guidelines recommend performance reports that are closely assessed before awarding further funds to ANDP for material projects. These procedures were not completed due to a lack of review and adherence to HUD suggested practices. The result of not monitoring the CHDO's performance contributed to the de-obligation of over \$1.2 million dollars of committed HUD dollars.

Recommendation

All future CHDO projects should have performance evaluations conducted in accordance with HUD guidelines. These reports should be reviewed and signed by HSHD senior management and kept on file in accordance with the County's retention schedule. HSHD should regularly review the progress of CHDO organizations to ensure satisfactory performance and compliance with program objectives. If funds are committed to CHDO organizations that were unable to successfully complete previous projects, HSHD Managers should prepare a written explanation that addresses why projects were unsuccessful and provide justification for future awards. This written documentation should be maintained within the HSHD in accordance with the County's retention schedule.

HSHD should also work to increase the number of CHDO certified non-profit organizations thereby broadening their pool of available non-profits to complete projects tied to the HOME Program. This helps to avoid reliance upon one certified non-profit that may or may not have satisfactory performance. Furthermore, failure to provide other non-profits with the opportunity to seek CHDO certification denies those potentially eligible agencies the chance to become a certified CHDO which ultimately denies them the ability to participate as a contractor on HUD projects that require CHDO certification.

Finding 6 – Non-Compliance with Established HUD and HHS Contract Execution Process

HUD and HSHD have established written procedures for contract execution to ensure all HHS contracts are processed with the appropriate signatures and tracked for timely execution. HUD provides contract templates to be used in the execution of contractual documents. The forms and templates made available by HUD for its associated programs should always be used and not modified. In an effort to expedite the obligation of funds in IDIS prior to the HUD deadline for commitment of HOME Program funds, HSHD management did not use established HUD contract templates and did not follow the internal departmental procedure for contract execution. HSHD attempted to combine multiple contract templates. The modified contracts were found to be non-compliant with the associated HUD program requirements by either not containing essential information or containing invalid information. Consequently, the modified contracts required extensive review by internal and external attorneys, which caused a delay in contract execution and led to a loss in service to Fulton County citizens. Failure to fully execute contracts in accordance with established guidelines resulted in the de-obligation of HUD HOME Program funds.

Recommendation

HSHSD staff and management should follow all internal documented procedures for contract execution. HSHSD staff and management should not attempt to modify approved HUD forms or contract templates. The approved forms and templates made available by HUD for its associated programs should always be used.

Finding 7 - Non-Compliance with Established HUD Project Contract Structure Guidelines

Written agreements for the owner, developer, and sponsor have specific elements that are required under HUD guidelines. The agreement requirements detailed in Section 24CFR 92.504 include but are not limited to the following:

- A completion of tasks schedule;
- A documented project budget;
- Initial rents and procedures for rent increases for rental projects;
- A documented compliance review with HOME Program requirements;
- A conflict of interest provision;
- An affordability requirement enforced by deed restrictions for rental projects; and
- A statement specifying that the Owner, Developer or Sponsor may not request disbursement of funds until the cost is incurred; this request is limited to the actual expense.

Two finalized written agreements between Fulton County and ANDP were reviewed and found to be non-compliant with HUD requirements for CHDO's HOME program contract content requirements. One or both of the agreements lacked the elements of a written agreement as required. The agreements were signed and completed without a proper compliance review. By entering into these contracts without proper review, the HSHSD Division Manager increased the risk of a non-compliant review by HUD's Audit staff, increased exposure to potential fund losses, and encouraged an internal control environment that was not in the best interest of Fulton County.

Recommendation

Currently, HSHSD does not employ a Compliance Specialist to review written agreements for Home Program projects. This position is recommended on the suggested chain of review for written agreements illustrated on the HUD website. It is our opinion that failure to execute the duties traditionally performed by a Compliance Specialist played a key role in HSHSD's inability to meet contract deadlines and the compliance areas detailed in this finding. HSHSD should ensure that the duties of a Compliance Specialist, as outlined by HUD, are performed.

Finding 8 – Inadequate HSHD Staffing

HUD suggests adequate staffing and structure to effectively administer its programs. HSHD is not currently organized nor fully staffed to correct the deficiencies identified by HUD and the County Auditor. HSHD experienced a reduction in staff due to early retirements and funding limitations. Budgetary constraints also prevented HSHD from meeting HUD's staffing requirements. As a result, insufficient staffing levels decreased HSHD's operational effectiveness of HUD program administration and increased funding risks.

Recommendation

HSHD management should take the necessary steps to comply with HUD's staffing requirements.

Finding 9 – Loss of Viable Business Project Due to Untimely Communication

Best business practices recommend regular meetings to inform, motivate and solicit feedback to effectively achieve goals and objectives. HSHD leadership was non-responsive to the requests of vendors and staff. Consequently, pertinent information was not relayed in a timely manner internally and externally. Failure to relay vital information to all parties responsible for grant and program management, results in tasks and critical dates being missed and tasks being performed incorrectly. This could result in loss of funding and/or repayment of expended funds equating to non-service to county citizens.

Recommendation

HSHD should engage in frequent written and verbal communication, and conduct regular meetings with internal and external entities to ensure tasks and critical dates are met. Frequent communication will help to safeguard against miscommunication and guarantee adequate and complete information is transmitted to all parties.

Finding 10 – Inaccurate IDIS Commitment Entries

HUD Guideline 24 CFR 92.2(1) requires that a commitment be supported by a legally binding executed written agreement. Management instructed staff to commit funds in IDIS utilizing a commitment letter. Thus, Home Program funds were obligated in IDIS without a fully executed contract for projects as required by HUD. Consequently, HUD de-obligated a portion of these funds in January, 2014 with additional Home Program funds scheduled for de-obligation on April 30, 2014. To correct the inaccurate IDIS entry, HSHD removed the entry and recommitted the funds to viable projects with fully executed contracts to avoid further de-obligation by HUD.

Recommendation

HSHD Management should comply with HUD Guideline 24 CFR 92.2(1) to ensure that a legally binding executed written agreement is in place prior to committing funds in IDIS to avoid potential and actual de-obligation of funds by HUD and incorrect entries. It should also

implement a policy and procedure that requires the written approval from its executive level management of IDIS entries to ensure documentation is in compliance with HUD regulations.

Finding 11 – Incompatible Job Functions and Titles

All HSHSD staff with HUD responsibilities should possess sufficient knowledge and skills necessary to ensure timely and proper execution of HUD obligations, expenditures and performance reporting. HSHSD staff should be well informed and able to effectively and efficiently carry out and act upon HUD regulations to include updates, monitoring and compliance. Currently, employees occupy positions with job titles that are incongruent with their job functions and their respective areas of expertise and skill set. Employees are placed in positions titled *Community Specialist*, where job duties are broad and more generic in nature. This allows HSHSD management to place employees in positions where there is a need rather than being placed in a position that specifically relates to the duties being performed and areas where they have the necessary skill set and expertise to effectively carry out the assigned duties. Consequently, employees with the appropriate skill set are not matched with the right position. This leads to inefficiency and errors due to a lack of adequate knowledge about a program area they are assigned to manage.

Recommendation

HSHSD and HHS management should ensure that employees are placed in appropriate positions in accordance with their area of expertise, and their job function and title should be compatible. HSHSD management should ensure that employees who do not currently occupy positions that match their area of expertise, receive adequate training and technical assistance to ensure grants are administered in accordance to HUD regulations. This will help to avoid costly errors that can occur as a result of inappropriate position placement, lack of training and lack of adequate technical assistance.

Finding 12 – Failure to Timely Secure Viable HOME Program Projects

HUD Guideline 24 CFR 92.500(d) states that any funds in the U.S. Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME agreement are subject to reduction or recapture by HUD. HSHSD lacked the knowledge and necessary expertise required to timely generate and execute real estate portions of partnership contracts. As a result, viable projects that required contracts between the vendor and Fulton County were not processed and executed timely, which led to a loss of service to citizens and encouraged poor relationships with potential vendors.

Recommendation

HSHSD should develop an effective process that includes accurate contract preparation and execution that can be fully completed and in place prior to or within 24 months of award to ensure viable projects are timely secured.

Finding 13 – Failure to Timely Post Expenses to the IDIS; Expenses Posted to IDIS without Documented Approval

The County is required to follow HUD’s process for reimbursement. The following steps are those that HSHSD takes to ensure compliance with HUD’s process:

1. HOME Program expenses are paid directly to the vendors or organizations that are contracted by Fulton County for Home Program Projects.
2. Once these expenses are paid they are posted to the HUD’s IDIS system, or “drawn-down,” in order for Fulton County to be reimbursed by HUD.
3. These draw-downs are allowed for activities that are consistent with HUD Home Program guidelines and regulations.
4. These expenses should be drawn-down in a timely manner in order to meet HUD deadlines and to ensure no financial hardship is placed on Fulton County’s cash flow position.

During our review we noted several steps for reimbursement under HUD’s reimbursement process had not been followed by HSHSD. A sample of the HOME Program’s HOME Rehabilitation receipts was reviewed for compliance. All of the Home Rehabilitation Program’s receipts were traced to the AMS and IDIS system. A review of the IDIS system indicated that \$43,193.50 of HOME Rehabilitation expenses had been drawn down on March 17, 2014; however, the supporting documentation for these draw-downs indicated that there was no approval signature from the HHS Director or Deputy Director. Another draw-down request form dated June 13, 2014 was reviewed. This draw-down request detailed expenses that dated to August, 2013 and was not signed by the HHS Director or Deputy Director for approval.

Further examination of the draw-down documents revealed that there were a significant amount of expenses processed for payment that had not been approved by the HHS Director for over a 10 month period. The documents reviewed remain unsigned as of June 17, 2014. This breakdown in processing appears to be a failure of the HSHSD Management and HHS Directors to review and approve expenses for draw-downs in the IDIS system, which consequently places a constraint on Fulton County’s cash flow position and disregards HUD guidelines.

Recommendation

HSHSD senior management should work with the County Manager to determine a more effective disposition of IDIS draw-downs and develop a more efficient process for tracking and reviewing IDIS expenses and un-posted fund entries.

Audit Concern(s) – Overall Staff Management

HUD Guidelines for Overall Management Systems indicates the following practices are necessary for a successful program:

- Duties and responsibilities of staff should be clearly defined and understood by both management and staff;

- Lines of authority should be clearly defined and understood by both management and staff;
- Systems should be in place that tracks employee performance of specific tasks;
- Systems should be in place to ensure that staff receives the appropriate information to enable them to complete tasks timely; and
- Program staff should maintain a library of HUD written guidance (final rule and policy notices) or have access to those documents as needed.

Interviews conducted with four key staff employees indicated that their duties and responsibilities were not clearly defined nor their lines of authority. Staff also indicated there are no mechanisms in place that disseminate necessary information required to complete tasks timely and in accordance with HUD guidelines and regulations. Additionally, staff should remain abreast of current HUD's Programs guidelines and regulations. It is our opinion that overall management of staff has not been well organized or documented. This lack of oversight should be addressed immediately to ensure the viable administration of HUD funded programs.

Conclusion

Our audit of HHSHD's grant infrastructure pertaining to grant administration of HOME Program funding identified several findings that include the following:

- Failure to comply with audit recommendations (IA/HUD)
- Unreimbursed HUD expenditures
- Community Specialist's lack of access to financial systems
- AMS and IDIS not reconciled in accordance with HUD guidelines
- Failure by management to review performance evaluations of Community Housing Development Organization (CHDO)
- Non-compliance with established HHS's contract execution process
- Non-compliance with established HUD project contract structure guidelines.
- Inadequate HHSHD staffing
- Loss of viable business project due to untimely communication
- Inaccurate IDIS commitment entries
- Incompatible job titles and functions
- Failure to timely secure viable HOME Program projects
- Failure to timely post expenses to the IDIS system; expenses posted to IDIS system without documented approval.

To mitigate these weaknesses, we strongly recommend that HHSHD management immediately and expeditiously initiate, document and implement the necessary remedies to ensure compliance with HUD and County regulations to decrease non-compliance issues, the likelihood of further funding de-obligation, and the risk of jeopardizing future HOME Program grant awards. It will be critical for executive level management to closely oversee and manage the implementation of such remedies established by HHSHD to provide assurance of complete and efficient execution of corrective action. Failure to do so may negatively impact Fulton County citizens, future grant awards, and cause further distress in the work environment and employee morale in HHSHD. In conclusion, our audit findings reveal that the current grant infrastructure in HHSHD for the

administration of the HOME Program funds is ineffective and lacks adequate oversight and internal controls. Without significant modifications, grant funding for this program and others could potentially be at risk.

Please provide a written response to this audit within 30 days. You may email your written response to the County Manager and Brigitte Bailey, Administrative Coordinator III in the Office of Internal Audit at Brigitte.Bailey@fultoncountyga.gov. We would like to thank management and staff for their timely cooperation and assistance during this audit. The distribution of this report is reserved for the executive management of Fulton County and the Board of Commissioners.