Issue Date May 07, 2010	
Audit Report Number 2010-LA-1010	

TO: Maria F. Cremer, Acting Director, San Francisco Office of Community Planning and Development, 9AD

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Arizona Department of Housing's Administration of Its Recovery Act Grant: Homelessness Prevention and Rapid Re-Housing Program

HIGHLIGHTS

What We Audited and Why

We audited the Homelessness Prevention and Rapid Re-Housing Program at the State of Arizona Housing Department (Department) because it was the largest single Homelessness Prevention and Rapid Re-Housing Program grant awarded within Arizona under the American Recovery and Reinvestment Act of 2009 (Recovery Act). In addition, the State Office of the Auditor General excluded the State's homeless programs from its planned reviews of Recovery Act programs. Our audit is part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) national mandate to monitor grant activities funded by the Recovery Act.

Our objective was to determine whether the Department administered the grant in compliance with Recovery Act and other applicable regulations. Specifically, we wanted to determine whether the Department had adequate policies and procedures in place to ensure that (1) Recovery Act funds were accounted for separately and reporting requirements were met, (2) program participants and activities were eligible, (3) Federal accounting documentation requirements were met, and (4) subrecipients were adequately trained and monitored for compliance.

What We Found

The Department had adequate policies and procedures to ensure that Recovery Act funds were accounted for separately and reporting requirements were met. However, it did not have adequate policies and procedures to ensure that its subrecipients properly established eligibility for program participants and activities and maintained source documents for program expenditures in accordance with the applicable documentation requirements for Federal grants. Further, the Department's policies and procedures were not adequate to ensure that subrecipients received adequate training and monitoring to ensure compliance with the specific Homelessness Prevention and Rapid Re-Housing Program regulations.

What We Recommend

We recommend that HUD require the Department to provide supporting documentation or repay unsupported amounts for $75,543 in program expenditures. We also recommend that HUD require the Department to provide adequate training and monitoring to its subrecipients to ensure that they have implemented policies and procedures to comply with Homelessness Prevention and Rapid Re-Housing Program requirements and to maintain appropriate source documentation for program expenditures. By ensuring that its subrecipients properly establish and document that program participants and activities are eligible, the Department will reduce the risk of waste, fraud, and abuse for its remaining Recovery Act funds under the program.

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 a draft report to the Department on April 21, 2010, and held an exit conference with Department officials on May 3, 2010. The Department provided written comments on April 29, 2010. The Department generally agreed with our report recommendations.

The complete text of the auditee'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 American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act) became Public Law 111-5 on February 17, 2009. 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 Recovery Act established the Homelessness Prevention and Rapid Re-Housing Program, which is regulated by the U.S. Department of Housing and Urban Development (HUD) and administered by HUD's Office of Community Planning and Development.

The Homelessness Prevention and Rapid Re-Housing Program

The purpose of the Homelessness Prevention and Rapid Re-Housing Program is to provide homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and to provide assistance to rapidly rehouse persons who are homeless as defined by section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). The program provides temporary financial assistance and housing relocation and stabilization services to individuals and families that are homeless or would be homeless but for this assistance. Accordingly, eligible program activities are intended to target the following two populations of persons facing housing instability:

- Homelessness prevention activities assist individuals and families that are currently in housing but are at risk of becoming homeless and needing temporary rent or utility assistance to prevent them from becoming homeless or assistance to move to another unit.
- Rapid rehousing activities assist individuals and families that are experiencing homelessness (residing in emergency or transitional shelters or on the street) and need temporary assistance to obtain housing and retain it.

Arizona Department of Housing

The Arizona Department of Housing (Department) was established in 2001 to allow for greater coordination and innovation of housing-related services at the State level. The Department serves as the grantee and responsible administrative agency for many of HUD's community planning and development programs, including the Community Development Block Grant, HOME Investment Partnerships, and Housing Opportunities for Persons With AIDS programs. The Department also administers the Section 8 Housing Choice Voucher Program for Yavapai County and several State-funded homeless programs. HUD allocated more than $7 million in Homelessness Prevention and Rapid Re-Housing Program funds to the Department for the period October 1, 2009, through September 30, 2012. The Department retained $211,006 in administrative funds and allocated the rest to 10 subrecipients,[1] which are administering the program as follows:

Town of Springerville	$203,200
New Hope Ranch	$203,200
SouthEastern Arizona Community Action Programs, Inc.	$947,339
Coconino County Community Services	$576,751
Gila County Community Services	$243,590
Western Arizona Council of Governments	$1,042,095
Mohave City Community & Economic Development	$892,651
White Mountains Catholic Charities	$590,850
Community Action Human Resources Agency	$1,179,759
Catholic Charities Yavapai Region	$943,079
Subtotal	$6,822,514
Arizona Department of Housing Administrative Funds	$211,006
Total	$7,033,520

Audit Objective

The objective of our audit was to determine whether the Department administered the grant in compliance with Recovery Act and other applicable regulations. Specifically, we wanted to determine whether the Department had adequate policies and procedures in place to ensure that (1) Recovery Act funds were accounted for separately and reporting requirements were met, (2) program participants and activities were eligible, (3) Federal accounting documentation requirements were met, and (4) subrecipients were adequately trained and monitored for compliance.

[1] These agencies serve cities, counties, towns, townships, etc., that do not qualify to receive Community Development Block Grant entitlement funds.

RESULTS OF AUDIT

Finding 1: The Department Did Not Ensure That Its Homelessness Prevention and Rapid Re-Housing Program Was Administered in Accordance With Recovery Act Regulations

The Department did not ensure its Homelessness Prevention and Rapid Re-Housing Program was administered in accordance with Recovery Act and other applicable Federal regulations. Although the Department had adequate policies and procedures to account separately for Recovery Act funds and meet reporting requirements, it did not ensure that its subrecipients

- Established that program participants and activities were eligible,
- Maintained adequate accounting documentation, and
- Received adequate training and monitoring for compliance with Federal requirements.

These conditions occurred because the Department did not follow the State of Arizona's General Accounting Office guidance specific to Recovery Act risk assessment and subrecipient monitoring. Instead, the Department followed its usual procedures for monitoring the subrecipients' administration of another State (non-Federal) program that provided homelessness prevention services. Because all of the subrecipients successfully administered the State program, officials believed these same agencies were capable of administering the Homelessness Prevention and Rapid Re-Housing Program with minimal guidance. However, the Department's inadequate oversight of its Homelessness Prevention and Rapid Re-Housing Program did not ensure that participants and activities were eligible or that HUD's reimbursements to the State for $75 thousand in grant expenditures were adequately supported.[2] Until the Department requires its subrecipients to follow the Federal program's requirements, the remaining program grant funds could be at risk.

The Department Did Not Ensure That Its Subrecipients Properly Established Eligibility

The Department did not ensure that its subrecipients determined, verified, and documented participant and/or activity eligibility in accordance with Recovery Act and other applicable Federal regulations (see criteria in appendix C). It contracted with 10 subrecipients throughout Arizona to administer its Homelessness Prevention and Rapid Re-Housing Program. However, none of the 10 subrecipients had adequate written

[2] At the time of this audit the Department had administered the program for six months of the 3-year term, and had been reimbursed by HUD for $75 thousand, or about 1 percent of the total grant amount.

policies and procedures. Specifically, the policies and procedures were not sufficient to address the Federal program's regulations and did not provide a step-by-step process or other guidance with enough detail to enable a caseworker to properly establish participant eligibility. Further, the subrecipients we visited had not established participant eligibility in accordance with HUD's requirements (see criteria F through U, appendix C).

During our review of 15 client files from 3 of the subrecipients, we were unable to determine if program participants/activities were eligible or ineligible by using the documents contained within the files. For example, we were unable to establish (1) how annual income was calculated or compared to the area median income levels and (2) homelessness or risk of homelessness. Every file reviewed contained similar deficiencies. Several client files also lacked adequate documentation to support activity funding, or third-party verification when required. The consistently high rate of deficiencies in all files reviewed demonstrated that the problem was systemic. The specific deficiencies are summarized below and presented by case in appendix D:

- 15 of 15 files did not contain the required documentation to determine the area median income level for the household;
- 15 of 15 files did not contain the required income/asset supporting documentation needed to determine income eligibility for the household;
- 15 of 15 files did not contain third-party verification of income and/or asset documentation or failed to provide the required explanation for its absence;
- 14 of 15 files did not contain the required documentation to support homelessness or risk of homelessness; and
- 9 of 15 files did not contain required documentation to show that the assistance (activity) funded had been paid (for example, receipts, vouchers, etc.)

For example, one client file reviewed had multiple deficiencies. The file contained a rental agreement for the client but not an eviction letter. Both documents are required to establish a risk of homelessness. Accordingly, we were unable to determine the risk of homelessness because the client was only $12 in rental arrears and documentation of an eviction notice was missing. Additionally, regulations state that if utility bills are to be paid under the program, the utility notice must show that shut-off is imminent. However, the utility bill in the file showed a past-due amount of zero; therefore, we were unable to establish whether utility payments were an eligible activity. Documentation of current employment for the client and one additional household member consisted of only one pay stub for a 2-week period. There was no other supporting documentation or third-party verification for the two employed household members. Therefore, we were unable to determine that the household's gross income met program requirements. Further, the subrecipient did not have eligibility determination procedures that we could follow. Therefore, we could not locate documentation to show what income the caseworker used or how the subrecipient calculated, annualized, and compared the income to the area median income limits. Finally, the file did not contain adequate proof that rent and utility payments had been forwarded to responsible third parties in care of the client.

Another client file illustrated that multiple deficiencies were typical. File documentation showed that the client had been living in a friend's room, apartment, or house. In this circumstance, HUD requirements state that a copy of an eviction letter from the friend who owns or rents the housing and a copy of the lease naming the friend as the leaseholder must be included in the participant file. However, the file did not contain a lease or an eviction notice, which caused us to question the risk of homelessness. In addition, although payments for utility service deposits are allowed under the Homelessness Prevention and Rapid Re-Housing Program, because the risk of homelessness was not fully substantiated, we questioned the eligibility of the rent and utility payments. The preliminary tracking form showed a 13-month employment period for the client; however, no pay stubs or employer verification documentation was in the file. On December 22, 2009, we contacted the employer listed on the documentation and were informed that the client currently worked for the company. The documentation showed that the client was working, but the income from employment was not included in the file. Accordingly, we were not able to determine income eligibility for the client. As in the case described above, the subrecipient did not have eligibility determination procedures that we could follow. Therefore, we could not locate documentation to show what income the caseworker used or how the subrecipient calculated, annualized, and compared the income to the area median income limits. Finally, the file did not contain adequate proof that rent and utility payments had been forwarded to responsible third parties in care of the client.

The Department Did Not Require Adequate Accounting Documentation

The Department did not request or review supporting documentation from any of its 10 subrecipients to ensure that amounts disbursed for Recovery Act activities were properly supported. Specifically, the Department did not examine source documentation for reimbursement requests submitted by its subrecipients for Homelessness Prevention and Rapid Re-Housing Program activities. A Department official stated that subrecipients maintained appropriate supporting documentation because the same 10 subrecipients administered the State's own program to prevent homelessness and the Department's prior monitoring of the State program had consistently found satisfactory compliance with the program requirements. However, we determined that the State program--Eviction Prevention Emergency Housing--had fewer requirements than the Federal Homelessness Prevention and Rapid Re-Housing Program and did not incorporate the Federal requirements for financial management systems.

All of the subrecipient files we reviewed contained instances of inadequate source documentation. As discussed above, case files typically failed to include documents to establish risk of homelessness (eligibility), such as complete leases, eviction notices and utility shut-off notices. These same documents were necessary to support the amount of program assistance that could be paid to the appropriate third party, such as the landlord or utility company. For example, a valid lease was necessary to establish the amount of rent in arrears or the amount of late fees due. Otherwise, a landlord could simply claim an arbitrary amount for overdue rent and late fees. Without the appropriate source document (the valid lease combined with the eviction notice), program officials could not be certain the Homelessness Prevention and Rapid Re-Housing Program was not overcharged.

Federal grant requirements for financial management systems are set forth in 24 CFR (Code of Federal Regulations) 85.20 (see criterion D in appendix C). Paragraph (a) of this regulation provides that a State (and its subgrantees) must account for [Federal] grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Accordingly, we determined that Arizona generally expected State agencies either to examine source documents submitted by subrecipients with requests for grant reimbursement or to examine source documents during onsite monitoring.[3] The Department did neither. In May 2009, the State of Arizona General Accounting Office issued a technical bulletin entitled Recovery Act Risk Assessment and Subrecipient Monitoring.[4] The monitoring procedures referred to under the technical bulletin include, among other things, determining whether the subrecipient's accounting records are supported by source documentation (e.g., canceled checks, paid bills, payrolls, contract and subgrant award documents, etc.) (see criterion V in appendix C).

Department officials stated that they reviewed the subrecipients' documentation during onsite monitoring. However, as of December 8, 2009, the Department had not conducted monitoring specifically for its Homelessness Prevention and Rapid Re-Housing Program. As a result, it had not examined supporting documentation or reviewed subrecipient policies and procedures for eligibility determinations and expenditure reimbursements under the Federal program.

The Department Did Not Provide Adequate Oversight of Its Subrecipients

The Department did not provide its subrecipients with adequate training or monitoring that specifically addressed the Federal requirements for the Homelessness Prevention and Rapid Re-Housing Program. This condition occurred because the Department had confidence in the capacity of its subrecipients to administer the new program and did not follow the State's guidance for Recovery Act risk assessment and subrecipient monitoring.

[3] Before May 2009, the State's guidance to its agencies regarding reimbursement of subrecipient grant expenditures was general in nature. We relied upon statements from the State Auditor General's office to determine what would be expected during its audits of grant payments.
[4] The State of Arizona General Accounting Office issued Technical Bulletin 10-05 on April 16, 2010, which superceded the initial Recovery Act guidance in the May 2009 bulletin.

Initial Training Was Not Provided

The Department did not provide its subrecipients with initial training to ensure compliance with all applicable regulations. Our interviews with all 10 subrecipients, along with later reviews of requested documents, disclosed that none of them had adequate written policies and procedures for establishing, documenting, or verifying client/activity eligibility. Officials at all subrecipients also thought that the Department had not provided adequate training for the Homelessness Prevention and Rapid Re-Housing Program. The subrecipients stated that the Department had merely supplied them with a copy of the Federal Register notice (see criterion C, appendix C). Further, one subrecipient official stated that the Department informed the subrecipient that the notice was flexible and as new regulations were posted, the Department would inform the subrecipient. The grant contracts between the Department and its subrecipients included a copy of the notice as a standard part of each contract, but no other regulations or guidelines for the program were present.

Department officials explained that they had not provided additional guidelines because the program regulations kept evolving and were not complete. Nevertheless, the HUD Homeless Resource Exchange Web site had posted the complete program requirements (see criteria F through U, appendix C) on October 16, 2009, and the regulations had not changed.[5] The grant contracts also specified that the Department would provide enough assistance to ensure that the subrecipients complied with program requirements. The Department did not fulfill this part of its own contract because it only supplied the notice and relied on the subrecipients to administer the program in compliance with all applicable regulations and requirements.

Department officials further stated that initial training for the Federal program would be a waste of administrative funds because the Department believed that the agencies were low risk and all of them had successfully administered the State's Eviction Prevention Emergency Housing program. Yet, a Department official stated that the State program's only real requirements were that the beneficiary be at or below 80 percent of area median income. We obtained a document that proclaimed the purpose and intent of the State's program and a checklist used by the subrecipients to determine eligibility. According to both documents, the State program required far less documentation for eligibility determination than the Federal Homelessness Prevention and Rapid Re-Housing Program.

During the audit we informed Department officials of the documentation deficiencies, and they immediately took steps to remedy the problem. The Department held a training conference call with the subrecipients to establish documentation requirements for the program. At least six[6] of the subrecipients responded to the new guidance by going back through the client files to determine whether all documents were in accordance with the requirements and to gather missing documentation. One subrecipient stated that caseworkers were unable to locate a few of the clients that had received assistance.

[5] The Web site information had not changed at the time of our review.
[6] Some of the subrecipients had not yet submitted requests for reimbursement.

Specific Monitoring Was Not Performed

The Department's past subrecipient monitoring did not effectively ensure compliance with all applicable regulations for the new program. The subrecipients informed us that the Department had been on site within the last 6 months to review other programs but not the Federal Homelessness Prevention and Rapid Re-Housing Program. The subrecipients also stated that the Department's program specialists were always available for questions and that there was constant contact. According to the Department, it had not conducted monitoring specific to the Federal program because policy was to conduct onsite visits every 2 years and several of the subrecipients had not started administering the program when their scheduled monitoring visit occurred. Again, the Department officials stated that they felt confident that the subrecipients would be able to administer the Federal program with little or no assistance. If the Department had conducted early onsite monitoring of the new program, it would have found that subrecipient policies and procedures did not ensure compliance with the Federal requirements.

The Department Failed To Follow State Guidance for Oversight of Recovery Act Subrecipients

In May 2009, the State's General Accounting Office issued the Recovery Act technical bulletin requiring that its agencies use two monitoring tools to ensure compliance with the Recovery Act: (1) the Financial and Administrative Monitoring Tool and (2) the Risk Assessment Monitoring Tool, both published by the Association of Government Accountant's Partnership for Intergovernmental Management and Accountability (a partnership effort with the U.S. Office of Management and Budget). (Agencies could use their own tool as long as all of the same topics were addressed and were substantially the same.)[7] However, the Department did not use the Financial and Administrative Monitoring Tool (or an equivalent) and allowed its subrecipients to complete the Risk Assessment Monitoring Tool themselves.

The Financial and Administrative Monitoring Tool is a questionnaire intended to be used by State agencies as a guide in establishing subrecipient monitoring programs. Its use should assist with the following:

- Determining that the Federal grant purposes are being met,
- Identifying and remedying problems before an audit, and
- Ensuring that recipients and subrecipients understand program requirements and have policies and procedures in place to meet them.

[7] The State of Arizona General Accounting Office issued Technical Bulletin 10-05 on April 16, 2010, which superceded the initial Recovery Act guidance in its May 2009 bulletin. The new guidance consolidated policies and procedures issued under several previous technical bulletins, and was intended to assist agencies meet Federal accounting and reporting obligations. The guidance replaced the monitoring and risk assessment tools that were the guidance effective at the time of the audit.

As noted above, if the Department had used this tool, it could have determined, among other things, that the source documentation supporting grant expenditures was insufficient.

The Risk Assessment Monitoring Tool is designed to be used in conjunction with the Financial and Administrative Monitoring Tool to evaluate which subrecipients may require further, more intensive monitoring. It is a comprehensive questionnaire with general questions to assess risk in the areas such as legal matters, financial systems and stability, and program requirements. The introduction states that offices using the programmatic assessment questions should develop specific program risk assessment questions based upon the governing compliance statutes, rules, and supplements for the program. The Department did not develop questions specific to the Homelessness Prevention and Rapid Re-Housing Program but directed its subgrantees to complete the risk assessment tool, keeping in mind that "although HPRP [Homelessness Prevention and Rapid Re-Housing Program] is a new program, it is similar to EPEH [the State's Eviction Prevention Emergency Housing program]." Subrecipients were to fax or e-mail the completed questionnaire to the Department.

Department officials allowed each subrecipient to fill out its own risk assessment report before administering the program because it was confident the subrecipients would be able to administer the Federal program with little or no assistance. Although the Department had good intentions, it should have conducted its own initial assessment of the subrecipients' capabilities to administer the Federal program and provided necessary training and/or monitoring to ensure compliance with applicable regulations. Had it done so, the extreme number of deficiencies might have been avoided.

Conclusion

The Department did not ensure that it's Homelessness Prevention and Rapid Re-Housing Program was administered in accordance with Recovery Act and other applicable regulations. Because it failed to conduct initial risk assessments and monitoring of subrecipients as required by the State of Arizona for its Recovery Act grants, it was not aware that subrecipients (1) had inadequate policies and procedures to establish participant or activity eligibility and (2) maintained inadequate source documentation to support program reimbursements. Accordingly, HUD reimbursed the State for $75,543 in unsupported expenditures at the time of our review (see appendix A-1). By ensuring that its subrecipients properly establish and document that program participants and activities are eligible, the Department will reduce the risk of waste, fraud, and abuse for its remaining Recovery Act funds under the program.

Recommendations

We recommend that the Director of the San Francisco Office of Community Planning and Development require the Department to

1A. Provide supporting documentation for $75,543 in unsupported program expenditures or reimburse the Recovery Act Homelessness Prevention Fund for any unsupported amounts.

1B. Provide adequate training and monitoring to its subrecipients to ensure that they implement policies and procedures which include (1) retention of adequate source documentation for program expenditures and (2) compliance with Homelessness Prevention and Rapid Re-Housing Program requirements, including requirements to properly establish the eligibility of participants and activities for assistance under the program.

SCOPE AND METHODOLOGY

We performed our onsite audit work from November 23, 2009, through February 5, 2010, at the Department's office in Phoenix, AZ. The audit generally covered the period October through December 2009. We expanded our audit period as needed to accomplish our objective. We reviewed both the Department and its subrecipients for compliance with applicable laws and HUD regulations. Our methodology included

- Interviews with pertinent personnel at HUD, the Department, other State offices, and the subrecipients;
- Review of the Homelessness Prevention and Rapid Re-Housing Program grant agreement between HUD and the Department;
- Review of the contract between the Department and its subrecipients;
- Review of accounting policies and procedures and accounting records of the Department and the State to ensure compliance with Recovery Act regulations;
- Review of policies and procedures for eligibility, verification, and monitoring of the program for both the Department and its subrecipients;
- Review of the Department's policies and procedures for reimbursement requests and drawdowns;
- Review of the subrecipient's client files to determine whether determination of eligibility and/or activity was in compliance with applicable regulations; and
- Review of applicable laws and regulations, including guidance issued by HUD and Office of Management and Budget circulars.

We conducted telephone interviews and requested policies and procedures from all 10 subrecipients. Because the subrecipients were all located in rural parts of Arizona and a short time was allowed to complete Recovery Act audits, we were unable to review files from all 10 subrecipients. Therefore, we selected and visited the three subrecipient agencies that received the most funding and were relatively centrally located. The three subrecipients had not yet assisted many clients under the Homelessness Prevention and Rapid Re-Housing Program; therefore, we selected 15 nonrepresentative files, which represented more than half of the three subrecipients' program activities to date.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures for tracking and reporting Recovery Act funds,
- Policies and procedures for compliance with program eligibility requirements,
- Policies and procedures for the review and/or retention of source documentation for program expenditures, and
- Policies and procedures for subrecipient training and monitoring.

We assessed the relevant controls identified above. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

The Department did not have adequate policies and procedures to ensure that

- Its subrecipients adequately established, verified, and documented participant and/or activity eligibility;
- Its subrecipients submitted or retained adequate source documentation for expenditures; and

- It trained and monitored is subrecipients to enable them to administer the Federal program in accordance with all regulations.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	$75,543

1/ 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 A-1

Table of Questioned Costs by Subgrantee

Subgrantee/grantee name	Award amount	Amount allowed for administrative use	Amount for program use	Unsupported amount disbursed by HUD for program activities	Remaining program funds available
Town of Springerville	$ 203,200	$ 4,190	$ 199,010	$	$ 199,010
New Hope Ranch	203,200	4,190	199,010	6,511	192,499
SouthEastern Arizona Community Action Programs, Inc.	947,339	19,533	927,806	8,044	919,762
Coconino County Community Services	576,751	11,892	564,859		564,859
Gila County Community Services	243,590	5,021	238,569		238,569
Western Arizona Council of Governments	1,042,095	21,487	1,020,608		1,020,608
Mohave City Community & Economic Development	892,651	18,405	874,246	37,065	837,181
White Mountains Catholic Charities	590,850	12,182	578,668		578,668
Community Action Human Resources Agency	1,179,759	24,324	1,155,435	22,350	1,133,085
Catholic Charities Yavapai Region	943,079	19,445	923,634	1,573	922,061
Arizona Department of Housing (administrative funds)	211,006	211,006			
Total	$7,033,520	$ 351,675	$ 6,681,845	$ 75,543	$ 6,606,302

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

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April 29, 2010

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RE: **Arizona Department of Housing's Administration of Its Recovery Act Grant: Homelessness Prevention and Rapid Re-Housing Program (HPRP)**

Dear Ms. Hobbs:

This letter is being written in response to the U.S. Department of Housing and Urban Development Office of the Inspector General's (HUD/OIG) recent audit of the above referenced Recovery Act program. The Arizona Department of Housing (ADOH) generally agrees with the findings of the audit and HUD/OIG's recommendations. Later in this correspondence we provide the agency's proposed plan to address the concerns outlined in the audit.

ADOH would like to thank the HUD/OIG staff who conducted this audit for their diligence and attention to detail which, in the long run, will benefit not only to the state of Arizona but to its sub-recipients and other HPRP grantees. We are disappointed and a bit surprised at the findings in this audit, but are thankful for this opportunity to correct any deficiencies so early in the grant period. That being said, we would like to state for the record that we believe that the findings of this audit are exceptional and do not accurately reflect the agency's overall record of managing state and federal programs in compliance with all applicable rules and regulations. In its short tenure, ADOH has successfully administered well in excess of $1.7 billion in federal grant and tax credit resources without incidence.

Comment 1

Comment 2

As the audit accurately describes, ADOH followed its usual procedures with its sub-recipient partners for this program, because it believed that the Recovery Act program was substantially similar to a state funded program providing identical services to the communities served by the sub-recipients. ADOH did not anticipate the apparent inability of its sub-recipient partners to adequately establish procedures and execute their contractual obligations in a way that would be acceptable under this federal program. Not only had these sub-recipient agencies successfully administered numerous grant awards on behalf of the state for years without instance of noncompliance, but also participate in numerous other state and federal programs administered by other state agencies of which past audits revealed no substantial issues of noncompliance.

Comment 3

Comment 4

Comment 5

Comment 6

While ADOH generally agrees with the audit, we would like to let HUD know that the rapid timeline imposed on all HPRP jurisdictions on program implementation and HUD's lag time in issuing program guidance has made the program challenging, undoubtedly contributing to some of the issues identified in the audit. For example, it was not until March 2010, after the HUD/OIG audit's conclusion, that HUD released a guidance handbook for the program.

Within the audit's conclusions it questions $75,543 in reimbursements made under the program, identifying these as "unsupported expenditures." ADOH takes exception to this statement and will be providing back up documentation to substantiate these reimbursements. It should be noted that at the time of the HUD/OIG audit visits and on-site monitoring of the sub-recipient's files, no funding had yet been reimbursed to the sub-recipients and that ADOH did not begin to release *any* reimbursements until it was satisfied through review of additional documentation that the sub-recipients claims were substantiated. Additionally, ADOH is confident that existing legal agreements with the sub-recipient partners is sufficient to require reimbursement by the sub-recipients of any questioned costs, should it determine any reimbursed costs to be ineligible. As such, ADOH believes that the HUD/OIG sweeping assertion that more than $6 million in Recovery Act funds are at risk for waste, fraud, and abuse is sensationalism and simply not true.

Proposed Plan to address audit concerns

In light of the audit's concerns and recommendations, ADOH proposes the following course of action.

1. ADOH will provide back up documentation to the San Francisco and/or Phoenix HUD Office on the $75,543 in questioned costs, as recommended.
2. No later than May 18, 2010, ADOH will provide a detailed program manual to all 10 of its sub-recipient partners, outlining standard operating procedures for processes and guidance on documentation requirements. It should be noted that the partner agencies are in receipt of the HPRP program manual that HUD released in March 2010.
3. In early June 2010, ADOH will provide detailed procedural and documentation training to its partner agencies. As noted in the audit, ADOH has made itself available to its partner agencies to answer any program questions on a day-to-day basis. It should also be noted that on-site training has also already been provided to all 10 sub-recipient partners on the Human Resources Management Information System (HMIS) and, to those who requested such assistance, on various other aspects of the program such as habitability standards and lead based paint inspections.
4. ADOH will be compiling an initial and annual monitoring schedule to be implemented no later than June 2010.

ADOH looks forward to receiving HUD's acceptance of this plan and demonstrating full compliance with the concerns outlined in the HUD/OIG audit. We look forward to meeting with you on May 3rd to discuss our proposal and all concerns in further detail.

Sincerely,

Michael Trailor
Director

cc: Maria F. Cremer, HUD/San Francisco Office of Community Planning and Development
Louis J. Kislin, HUD/Phoenix Office of Community Planning and Development

OIG Evaluation of Auditee Comments

Comment 1 We agree that the Department followed its usual procedures with its subrecipient partners because it believed that the Recovery Act program was substantially similar to a State funded program. However, we disagree that the State's program provided identical services to the Recovery Act program. A document provided by the Department showed the State program's purpose included a statement that said, "The intention is to allow qualified local agencies to propose a menu of eligible services that EPEH [the State funded program] funds can be used for…based on local needs and experience." Further, we reviewed the requirements for both programs and found that only two of seven requirements for the State program were the same as the Homelessness Prevention and Rapid Re-Housing Program requirements.

Comment 2 We agree that the subrecipients did not adequately establish written policies and procedures to ensure compliance with the program. However, according to Federal regulations, it was the responsibility of the grant recipient to manage day-to-day activities of its subrecipients. Additionally, the Department's contract with its subrecipients stated that it would provide reasonable technical assistance to assist the subrecipient to comply with program requirements. The Department did not supply initial training in regard to program eligibility and documentation requirements because it thought its subrecipients were low risk. Nevertheless, because the Federal program was new and expired after three years, prudent oversight should include a close review of the program requirements and provision of early training or monitoring specific to the Federal requirements.

Comment 3 We agree that the Recovery Act's rapid timelines for program implementation are challenging, however, we disagree that HUD's guidance for the Homelessness Prevention and Rapid Re-Housing Program was delayed until March of 2010. The HUD Homeless Resource Exchange web site had posted the full guidance for determining and documenting eligibility for program participants on October 16, 2009. The March 2010 guidance referred to in the Department's response is a revised version that clarified some of the October 16, 2009 guidance and made minor changes.

Comment 4 We stand by our conclusion that the State was reimbursed by HUD for unsupported program expenses of $75,543. Drawdown reports from HUD's grant disbursement information system confirmed this amount. The timing of the Departments' reimbursements to its subrecipients is not relevant because the Department had already approved the payment requests for submission to HUD. Further, some of the reimbursed funds were requested to make program advances (which were allowable under certain circumstances). The report recognized that, upon notice of the deficiencies we identified during the audit, the Department immediately sought the appropriate back up documentation. However, it is the responsibility of the HUD Office of Community Planning and Development to evaluate the sufficiency of any back up documentation provided in response to our finding.

Comment 5 We stand by our conclusion that unless the Department provides adequate training and monitoring to its subrecipients, the remaining Recovery Act funds available through its Homelessness Prevention and Rapid Re-Housing Program would be at risk. In 100 percent of the file reviews we conducted, documentation was insufficient to establish either the eligibility or ineligibility of the participant and/or activity. Further, the Department's procedures were to request HUD's reimbursement for these expenditures without examining the supporting documentation. The fact that the State could compel its subrecipients to repay any unallowable expenses did not mitigate this risk. We modified the report language to reflect that our review was performed in the early phase of the three year program and, therefore, if our recommendations are adopted, the remaining Recovery Act funds under this program will be expended in compliance with the program purpose.

Comment 6 In accordance with HUD's audit resolution procedures, officials in the HUD Office of Community Planning and Development will evaluate the auditee's proposed plan.

Appendix C

CRITERIA

A. American Recovery and Reinvestment Act of 2009 – Public Law 111-5 establishes the Homelessness Prevention Fund. The homelessness prevention portion of the Recovery Act falls under Title XII, Transportation, Housing and Urban Development, and Related Agencies.

B. In accordance with Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, an alien (a person who is not a U.S. citizen or national) may be eligible for assistance under the Homelessness Prevention and Rapid Re-Housing Program only if he or she is a "qualified alien" (defined in 8 U.S.C.1641). Nonprofit organizations that administer HPRP [Homelessness Prevention and Rapid Re-Housing Program] assistance are not required to but may verify that an alien is a qualified alien in order to provide him or her with HPRP assistance. However, if a nonprofit organization pursues verification, it must follow the requirements set forth in the interim guidance published by the Department of Justice.

C. HUD Federal Register Notice FR-5307-N-01 advised the public of the allocation formula and allocation amounts, the list of grantees, and requirements for the Homelessness Prevention Fund, hereafter referred to as the "Homelessness Prevention and Rapid Re-Housing Program," under Title XII of the Recovery Act. Congress has designated $1.5 billion for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly rehoused and stabilized.

D. Regulations at 24 CFR 85.20(a) state, "A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors must be sufficient to—(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

E. Regulations at 24 CFR 85.40(a) state, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

F. HUD eligibility and documentation guidance states that grantees and subgrantees are responsible for verifying and documenting the eligibility of all HPRP applicants before providing HPRP assistance. They are also responsible for maintaining this documentation in the HPRP participant case file once approved for assistance. Grantees with insufficient case file documentation may be found out of compliance with HPRP program regulations during a HUD monitoring.

G. HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation requirements state that the household must be either homeless (for rapid rehousing assistance) or at risk of losing its housing (for homelessness prevention assistance) and meet both of the following circumstances: (1) no appropriate subsequent housing options have been identified and (2) the household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

H. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that documentation standards, in order of preference, are written third-party verification, oral third-party verification, and applicant self-declaration.

I. HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation requirements for persons at risk of homelessness state that a copy of an eviction notice from the landlord/property manager of the unit or a court order based on eviction action that notifies the applicant that he or she must leave and a copy of the lease naming the applicant as the leaseholder must be in the client file.

J. HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation requirements for persons at risk of homelessness state that a copy of an eviction letter from the host family or friend who owns or rents the housing that notifies the applicant that he or she must leave and a copy of the lease naming the host family/friend as the leaseholder must be in the client file.

K. HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation requirements for persons at risk of homelessness state that a copy of a utility shut-off notice from utility company must be included in the participant file.

L. HUD Homelessness Prevention and Rapid Re-Housing Program eligibility and documentation requirements for persons at-risk of homelessness state that a self-declaration of housing status is acceptable if no other documentation can be obtained.

M. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that income from employment must be documented by the most recent pay stub(s) and the signed and dated verification of income from employer(s) must be in the client file.

N. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that income from employment may be documented by self-declaration only if written documentation or oral third-party verification cannot be obtained.

O. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that business income must be verified by obtaining a copy of the most recent Federal or State tax return showing net business income and must be included in the client file.

P. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that interest and dividend income must be documented by obtaining a copy of the most recent interest or dividend income statement and must be included in the client file.

Q. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that unemployment and disability income must be verified by obtaining a copy of most recent unemployment, worker's compensation, SSI [Supplemantal Security Income], SSDI [Social Security Disability Insurance], or severance payment statement or benefit notice and must be included in the client file.

R. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that TANF [Temporary Assistance for Needy Families]/public assistance income must be documented by obtaining a copy of the most recent welfare payment or benefit notice and must be included in the client file.

S. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that alimony, child support, or foster care payments must be documented by obtaining a copy of the most recent alimony, foster care, child support, or other contributions or gift payment statements, notice, or order and must be included in the client file.

T. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that to be eligible to receive rental assistance or other Homelessness Prevention and Rapid Re-Housing Program assistance, an applicant household must have a gross annual income that is at or below 50 percent of the area median income, which is determined by the State and by the local jurisdiction in which a household resides and is dependent on the size of the household (i.e., number of household members).

U. HUD Homelessness Prevention and Rapid Re-Housing Program income eligibility documentation requirements state that the household's income must be annualized and documentation of a household's annual income relative to area median income and indicating HPRP eligibility (50 percent of area median income or less) should be maintained in the participant file.

V. Technical Bulletin Arizona Department of Administration General Accounting Office for Recovery Act Risk Assessment and Subrecipient Monitoring, effective May 27, 2009, states, "The <u>Financial and Administrative Monitoring Tool</u>, and <u>Risk Assessment Monitoring Tool</u>, or their equivalent must be utilized for all Recovery Act dollars. Agencies should review these tools to ensure compliance with the Recovery Act. Agencies may utilize their own tools as long as all areas in the attached documents are addressed and are substantially the same. Agencies should consider utilizing these tools to ensure compliance with risk assessment and subrecipient monitoring requirements for all Federal funds."

W. Financial and Administrative Monitoring Tool states, "This Financial and Administrative Monitoring Tool is the result of an intergovernmental partnership established by AGA [Association of Government Accountants] in cooperation with the US Office of Management and Budget. The purpose of this tool is to provide uniform guidance for subrecipient monitoring. It is designed to be applicable across federal granting authorities as well as across state entities. It is intended to be used by state agencies as a guide in establishing subrecipient monitoring programs and should be used in conjunction with the Risk Assessment Monitoring Tool."

X. Risk Assessment Monitoring Tool states, "This risk assessment monitoring tool is the result of an intergovernmental partnership established by AGA in cooperation with the US Office of Management and Budget. It is intended to provide states with a method for assessing subrecipient risk and to be applicable across federal granting authorities, as well as across monitoring authorities." And, "This tool is designed to be used in conjunction with the Financial and Administrative Monitoring Tool to evaluate which subrecipients may require further, more intensive monitoring."

Appendix D

SCHEDULE OF DEFICIENCIES

Homelessness Prevention and Rapid Re-Housing Program documentation requirements not met							
Client file number	Type of assistance provided	Assistance amount (A)	Homeless or at risk (B)	Area median income at or below 50% (C)	Income/ asset (D)	Income/ asset verification (E)	Activity funded eligible (F)
1	Rental assistance	$1,288	X	X	X	X	
2	Rental assistance	$2,800	X	X	X	X	
3	Rental assistance	$420	X	X	X	X	
4	Rental assistance	$1,575	X	X	X	X	
5	Rental assistance	$936	X	X	X	X	
	Utility assistance	$256.32					
6	Rental assistance	$650.00	X	X	X	X	
	Utility assistance	$119.06					
7	Rental assistance	$2,008	X	X	X	X	X
8	Rental assistance	$999.00	X	X	X	X	X
	Utility assistance	$140					
9	Rental assistance	$750	X	X	X	X	X
	Utility assistance	$842.17					
	Hotel voucher	$130.26					
10	Rental assistance	$738.10	X	X	X	X	X
	Utility assistance	$33					
11	Rental assistance	$650		X	X	X	X
	Utility assistance	$159.07					
12	Rental assistance	$1,250	X	X	X	X	X
	Utility assistance	$541.86					
13	Rental assistance	$500	X	X	X	X	X
14	Rental assistance	$1,370	X	X	X	X	X
	Utility assistance	$67.95					
15	Rental assistance	$1,650	X	X	X	X	X
	Utility assistance	$167.74					
Totals			14	15	15	15	9

Legend

Column	Description
A	Amount provided to third party in care of program participant.
B	Documentation must support the risk of homelessness or that the participant is currently homeless.
C	Documentation must support that the total annual household income is at or below 50 percent of the area median income levels established by HUD.
D	Documentation must support that all income and assets were used during the calculation of annual household income.
E	Documentation must show that all income was verified through third-party verification as established by program regulations, or the reason why third-party verification was not conducted must be documented.
F	Accounting records must support that the funding was paid to a third party in care of a program participant and that the activity paid was an eligible activity.