TO: Sandra H. Warren
            Director, Office of Community Planning and Development, 6ED

            //signed//
FROM: Gerald R. Kirkland
            Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of Houston, TX, Did Not Ensure That Its Homelessness Prevention and
            Rapid Re-Housing Program Complied With Recovery Act Requirements

HIGHLIGHTS

What We Audited and Why

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we reviewed the City of Houston's (City) Homelessness Prevention and Rapid Re-Housing Program (Homeless Program). Our objective was to determine whether the City ensured that its Homeless Program complied with Recovery Act and U. S. Department of Housing and Urban Development (HUD) laws, regulations, and requirements.

What We Found

The City did not ensure that its Homeless Program complied with Recovery Act requirements. Specifically, it did not ensure that subrecipients properly documented eligibility for 13 of the 16 client files reviewed. This condition occurred because the City did not provide appropriate guidance to the subrecipients or properly monitor their performance. As a result, it paid $59,274 in Homeless Program assistance for tenants whose eligibility was not adequately documented and inappropriately paid $300 directly to one tenant.

What We Recommend

We recommend that the Director of Community Planning and Development, Houston, TX, require the City to (1) conduct quarterly onsite monitoring of its subrecipient agencies to ensure that they comply with Homeless Program rules and requirements and ensure that the agencies maintain adequate records of client eligibility, (2) provide supporting documentation for 13 participants lacking adequate documentation or reimburse its Homeless Program account $59,274 from non-Federal funds, and (3) reimburse its Homeless Program account $300 from non-Federal funds for ineligible expenses.

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 issued a draft report to the City and HUD on May 12, 2011, and requested written comments by May 23, 2011. We conducted an exit conference on May 17, 2011. The City requested an extension and provided its written comments on May 25, 2011. It generally agreed with the report.

The complete text of the City'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

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act), which included $1.5 billion for the Homelessness Prevention and Rapid Re-Housing Program (Homeless Program). Funding for the program was distributed based on the formula used for the Emergency Shelter Grants program and is administered by the U. S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development.

The purpose of the Homeless Program is to provide homelessness prevention assistance for households that would otherwise become homeless, many due to the economic crisis, and rapid re-housing assistance for persons who are homeless as defined by section 103 of the McKinney Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). HUD allows grantees the discretion to develop prevention and/or rapid re-housing programs that meet locally defined needs. However, HUD also expects that those resources will be targeted and prioritized to serve households that are most in need of temporary assistance and are most likely to achieve stable housing, whether subsidized or unsubsidized, after the Homeless Program concludes. The Homeless Program provides temporary financial assistance and housing relocation and stabilization services to individuals and families who are homeless or would be homeless but for this assistance.

HUD entered into a grant agreement with the City of Houston (City) to distribute more than $12.3 million in Homeless Program funds to entities responsible for carrying out Homeless Program activities. HUD required the City to be responsible for ensuring that each entity fully complied with Homeless Program requirements. HUD also required the City to submit a monitoring plan and develop and maintain a schedule for monitoring all subrecipients or contractors[1] because both HUD and the Office of Inspector General (OIG) had previously cited the City for not adequately monitoring its subgrantees.[2]

The City administered the Homeless Program through its Housing and Community Development Department (Department). The Department contracted with the Child Care Council of Greater Houston (Council), a nonprofit organization, to distribute program funds and manage participant assistance payments. Through the Council, the Department allocated Homeless Program funds to 10 nonprofit agencies and the City's Health and Human Services Department to provide direct services to participants. The Department also contracted with the Coalition for the Homeless, another nonprofit agency, to provide data collection and evaluation services.

Our objective was to determine whether the City ensured that its Homeless Program complied with Recovery Act and HUD laws, regulations, and requirements.

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[1] HPRP [Homeless Program] Grant Agreement, Attachment A: Special Conditions
[2] OIG Audit 2009-FW-1011

RESULTS OF AUDIT

Finding: The City Did Not Ensure That Its Homeless Program Complied With Recovery Act Requirements

The City did not ensure that its Homeless Program complied with Recovery Act requirements. Specifically, it did not ensure that subrecipients properly documented eligibility for 13 of the 16 client files reviewed. This condition occurred because the City did not provide appropriate guidance to the subrecipients or properly monitor their performance. As a result, it paid $59,274 in Homeless Program assistance for tenants whose eligibility was not adequately documented and inappropriately paid $300 directly to one tenant.

The Department Did Not Ensure Compliance With Documentation Requirements

The City administered the Homeless Program through the Department. However, the Department did not ensure that 13 of 16 participant files complied with Homeless Program documentation requirements.[3] The 13 files lacked initial and/or subsequent assessments of need, did not appropriately document evidence of income, and contained other miscellaneous errors. The 13 erroneous files are summarized in the table below.

Sample number	Unsupported costs	Ineligible costs	Lack initial and/or subsequent need assessment	Other error
1	$4,430		X	
2	1,647		X	
4	8,654		X	X
6	3,942		X	
7		$300	X	
8	4,035		X	
9	5,340		X	
10	3,517		X	
12	6,596		X	
13	8,151		X	X
14	2,697		X	X
15	8,985		X	X
16	1,280		X	X
Totals	$59,274	$300	13	5

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[3] See appendix C for deficiencies identified in the 16 participant files.

**Participant Files Lacked
Adequate Documentation**

The Department did not ensure that four nonprofit subrecipient agencies complied with Homeless Program documentation requirements for assessing need in 13 of 16 participant files reviewed. Eleven of the 13 files lacked required documentation of the caseworkers' assessment of the participant's lack of other housing options, lack of sufficient financial resources, and/or lack of support networks to obtain immediate housing and/or remain in existing housing.[4] The other two files lacked other eligibility requirements. The first lacked third-party documentation or a signed self-certification of the client's homeless status. The second lacked complete income documentation. In four files, caseworkers did not document the quarterly recertification of the participants' continued eligibility as required.[5]

**Participant Files Contained
Other Errors**

In addition to lacking documentation to support participant eligibility, five participant files contained other errors, including incorrectly calculated length of assistance, lack of evidence of rent reasonableness certifications, and lack of evidence that lead-based paint testing was conducted when required.

In one case, a participant received 2 months of rental assistance from the Harris County Homeless Program before being admitted to the City's Homeless Program. Although this information was noted in the case file, the case manager did not include the 2 months of prior assistance in the calculation of the total number of months the participant had received assistance. Further, the Council's payment records only included the payments that it issued. The records did not include the payments issued by Harris County's Homeless Program. This discrepancy in the length of assistance provided could result in participants receiving more than the maximum amount of assistance.[6] The Department should ensure that the Council includes in its records the cumulative number of months a participant has received Homeless Program assistance from all Homeless Program sources.

To ensure that the amount of rental assistance paid for units complied with HUD's standard of "rent reasonableness," HUD required that subrecipients conduct and document rent reasonableness reviews for all program-assisted units.[7] Of the 16 files reviewed, 3 did not contain rent reasonableness certifications.

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[4]   HUD's Homelessness Prevention and Rapid Re-housing Program Eligibility Determination and Documentation Guidance, Revised March 17, 2010, Chapter 2-Assessment

[5]   Ibid.

[6]   HUD Federal Register Notice, FR-5307-N-01, section IV.A.1.a.(1)

[7]   HUD Federal Register Notice, FR-5307-N-01, section IV.A.1.a.(4)

Further, all units built before 1978 and housing a child under age 6 were required by the Residential Lead-Based Paint Hazard Reduction Act of 1992[8] to be assessed for lead-based paint and to have any lead-based paint abated. Three of the files for units built before 1978 and housing a child under age 6 did not contain evidence that lead-based paint testing had been conducted.

Because of the missing documentation, the Department and HUD could not be assured that the City's Homeless Program complied with Federal regulations.

The Department Did Not Properly Guide or Monitor Subrecipients

The file errors occurred and were not detected or corrected because the Department did not provide effective guidance to its subrecipients and did not monitor them in accordance with its monitoring plan.

For example, two of the four subrecipients did not conduct habitability reviews on all Homeless Program-assisted units as required by the Department. They only conducted a habitability review when a client moved into a different unit under the program. These two subrecipients were not aware of the Department's requirement to conduct habitability inspections on all Homeless Program-assisted units.[9]

In another example, the Department paid $300 in ineligible expenses for one participant. The subrecipient did not inform the participant that a returned rental security deposit of $300 paid with Homeless Program funds was to be used to secure the participant's next rental unit under the program. Instead the participant used the returned funds for personal expenses, and the Department paid an additional $400 security deposit for the participant's new unit.

The City did not detect or correct the errors because it did not monitor the subrecipients in accordance with its monitoring plan. The Department had developed a monitoring plan;[10] however, it did not fully implement the plan. Specifically, the Department

- Did not conduct quarterly site visits to its subrecipients as required by its monitoring plan.[11] Department staff performed technical assistance visits to 10 subrecipients in February 2010, when they were either beginning or

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[8]   HUD Federal Register Notice, FR-5307-N-01, section VII.F

[9]   HUD Federal Register Notice, FR-5307-N-01, section VII.C. requires habitability inspections for units into which a participant would be moving and states that the grantee may require more stringent standards. The City required its subrecipients to conduct habitability inspections for all units in the Homeless Program.

[10] City of Houston, Subrecipient Monitoring Plan for Public Service & HOPWA [Housing Opportunities for Persons with AIDS], HUD Grant Funded Projects, Revised September 4, 2009.

[11] Department managers stated that they were in the process of restructuring their Compliance and Monitoring Division and there was confusion as to which group should have conducted the quarterly site visits.

about to begin Homeless Program operations, and visited an 11th subrecipient in June 2010. Staff from another City division conducted monitoring reviews of four direct-service subrecipients and the Council in September 2010.

- The Department did not develop required monitoring schedules.
- The Department did not always send formal monitoring results letters to the subrecipients within the required 30 days.
- The City did not always ensure that responses to formal monitoring results letters were received from subrecipients.

The Department should conduct quarterly technical assistance visits to all of its subrecipients to ensure that participant files are adequately documented and all Homeless Program requirements are consistently followed.

Conclusion

The City did not ensure that its subrecipients complied with Homeless Program rules for 13 of 16 participant files reviewed. The City did not provide sufficient guidance to the subrecipients and was unaware of the errors because it did not monitor the subrecipients in accordance with its monitoring plan. As a result, the City paid $59,274 in assistance for participants whose eligibility was not adequately documented. It also paid $300 in Homeless Program funds to one tenant who used the money for ineligible personal expenses.

Recommendations

We recommend that the Director of the Office of Community Planning and Development, Houston, TX, require the City to

1A. Provide documentation supporting the eligibility of the 13 Homeless Program participants listed as unsupported in appendix C or reimburse its Homeless Program $59,274 from non-Federal funds.

1B. Reimburse its Homeless Program $300 from non-Federal funds for ineligible funds paid to a participant.

1C. Implement procedures to ensure that it administers its Homeless Program in accordance with requirements, including ensuring that (1) subrecipients sufficiently document participants' initial and continued program eligibility and (2) it develops monitoring schedules and conducts quarterly monitoring of its subrecipients as required, which includes reviewing a sample of participant case files to ensure program compliance, notifying subrecipients of monitoring results, and documenting the subrecipients' responses.

SCOPE AND METHODOLOGY

We performed our audit work at the Department's and five subrecipients' offices and at the HUD OIG Houston, TX, office. The audit generally covered the period June 1, 2009, through December 31, 2010. We expanded our audit period as needed to accomplish our objective. To accomplish our objective, we reviewed

- Relevant criteria governing the program, including Recovery Act regulations, the Code of Federal Regulations, Homeless Program laws and policies, HUD's guidance regarding the Homeless Program, the grant agreement between HUD and the City including the substantial amendment, contracts between the Department and the Council, and contracts between the Council and the subrecipients providing direct services to participants.

- The City's audited financial statements for 2009 and 2010, and the Council's audited financial statements for 2009.

- The City's and Council's accounting policies and procedures as well as accounting records to ensure compliance with Recovery Act regulations.

- The Department's and subrecipients' organizational charts and written policies covering the Homeless Program.

- City and Council supporting documentation for invoices for reimbursement of Homeless Program expenses. All invoices reviewed were adequately supported and for eligible expenses.

- Letters sent to subrecipients regarding City monitoring findings and responses.

- A random, nonstatistical sample of 16 participant files.

We also interviewed appropriate HUD program staff and Department, Council, and subrecipient management and staff.

We selected our sample of 16 participant files to review from 4 of the 11 subrecipient agencies that provided direct services to Homeless Program participants. We selected samples from the three agencies that had expended the most funds as of December 31, 2010, and an additional agency at random that had expended a lesser amount of funds. We randomly selected between two and six participant files for each agency, with a higher number of participant files selected from agencies that had spent the most money.

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 a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Controls to ensure that subrecipients comply with applicable Recovery Act and Homeless Program laws, regulations, and policies.

We assessed the relevant controls identified above.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Department did not adequately provide guidance to or monitor its subrecipients to ensure that they complied with Homeless Program laws, regulations, and policies (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		$59,274
1B	$300	

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation   **Auditee Comments**

CITY OF HOUSTON
Housing & Community Development Department

Annise D. Parker
Mayor

James D. Noteware
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May 23, 2011

Gerald R. Kirkland
Regional Inspector General for Audit, Forth Worth Region, 6AGA
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Forth Worth, Texas 76102

Subject: Response to Audit Report Number 2011-FW-100X Finding

Dear Mr. Kirkland:

Finding: The City Did Not Ensure That Its Homeless Program Complied With Recover Act Requirements.

Condition: The City did not ensure that its Homeless Program complied with Recovery Act requirements. Specifically, it did not ensure that subrecipients properly documented eligibility for 13 of the 16 client files reviewed. This condition occurred because the City did not provide appropriate guidance to the subrecipients or properly monitor the performance. As a result, it paid $59,274 in Homeless program assistance for tenants whose eligibility was not adequately documented and inappropriately paid $300 directly to one tenant.

Criteria: HUD's Homelessness Prevention and Rapid Re-housing Program Eligibility Determination and Documentation Guidance, Revised March 17, 2010, Chapter 2-Assessment; Ibid; HUD Federal Resister Notice, FR-55307-N-01, section IV.A.1.a(1); HUD Federal Resister Notice, FR-55307-N-01, section IV.A.1.a(4)

Cause: Lack of understanding of Departmental reorganization and responsibilities assigned.

Effect: Failure to conduct quarterly technical assistance visits and ensure participants files were adequately documented all Homeless Program requirements are consistently followed.

Corrective Action: The City must provide documentation supporting the eligibility of the 13 Homeless Program participants listed as unsupported in appendix C, of the above referenced audit report, or reimburse its Homeless Program $59,274 from nonfederal funds. The City must reimburse its Homeless Program $300 for ineligible funds paid to a participant. The City must implement procedures to ensure that it administers its Homeless Program in accordance with requirements, including

ensuring that (1) subrecipients sufficiently document participants' initial and continued program eligibility and (2) develops monitoring schedules and conducts quarterly monitoring of its subrecipients as required, which includes reviewing a sample of participant case results, and documenting the subrecipients' response.

Comment 1   **City Response:** The City has cured all of the 13 files that lacked documentation supporting the eligibility of Homeless Program participation. The 13 files are at the various agencies' location and ready for immediate review by HUD.

Comment 2   The City agrees to pay the $300.00 to the Homeless Program out of non-Federal funds, for ineligible funds paid to a participant. The City is currently working on drafting procedures to address future Security Deposit concerns. The City will seek guidance from our HUD Field Office when drafting this procedure.

The "but for" rule will be included on the Intake Form and not just case notes written by case managers.

Comment 3   Prior to the audit report listed above, the City implemented the monitoring schedules and conducts the quarterly monitoring/technical assistance visits to each of the Homeless Program subrecipients. These visits include reviewing a sample of participant case files to ensure program compliance, ensure subrecipients sufficiently document participants' initial and continued program eligibility, notify subrecipients of monitoring results, and documenting the subrecipients' responses.

If you have any questions, I may be reached at 713-868-8305 or you may contact Derek Sellers, our department's HUD liaison, at 713-868-8428.

Sincerely,

//signed//

James D. Noteware

Xc: Derek Sellers

JN:ST:BB:mnb

OIG Evaluation of Auditee Comments

Comment 1 The City said that it had corrected all 13 files that lacked adequate documentation of eligibility and made a change to its procedures to ensure eligibility is documented. We acknowledge the City's timely action; however, we did not review the files to confirm that the City corrected them.

Comment 2 The City agreed to repay the $300 from non-federal funds for ineligible funds paid to a participant and to draft procedures to address future security deposit issues. We agree with the City's response to this issue.

Comment 3 The City said that it had fully implemented its monitoring plan. We did not confirm that the City implemented the plan.

Appendix C

TABLE OF DEFICIENCIES

Agency/ sample no.	Unsupported	Ineligible	Assessment of other housing options/homelessness not documented	Assessment of support networks not documented	No income documentation/ determination	Reassessment not performed	No lead-based paint certification	Other[12]
A-01	$ 4,430		X	X		X		
A-02	$ 1,647		X	X		X		
A-03								
A-04	$ 8,654		X	X		X		X
A-05								
A-06	$ 3,942		X	X				
B-07		$ 300			X			
B-08	$ 4,035		X	X	X			
B-09	$ 5,340		X	X	X			
B-10	$ 3,517		X	X	X			
B-11								
C-12	$ 6,596		X	X				
C-13	$ 8,151		X	X				X
C-14	$ 2,697		X				X	
D-15	$ 8,985			X		X	X	
D-16	$ 1,280		X				X	X
Totals	$59,274	$ 300	11	10	4	4	3	3

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[12] Includes the lack of a rent reasonableness certification and/or inaccurate number of months