



FULTON COUNTY

FULTON COUNTY, GEORGIA

OFFICE OF THE COUNTY AUDITOR

Housing and Community Development

HOME Program Monitoring Audit Report

June 23, 2016

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INTRODUCTION

The Office of the County Auditor has conducted a monitoring audit of Fulton County's Home Investment Partnerships (HOME) Program. The HOME Program monitoring audit is required by the Department of Housing and Urban Development (HUD).

BACKGROUND

The HOME Program was created by the National Affordable Housing Act of 1990 (NAHA) and has been amended several times by subsequent legislation. Under the HOME Program, HUD allocates funding by formula to participating jurisdictions to fund a wide range of activities including building, buying and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

The Fulton County Housing and Community Development (FCHCD) Department receives funding from HUD to administer the HOME Program. HUD also provides funding to FCHCD for other federal housing grants including the Community Development Block Grant (CDBG), the Neighborhood Stabilization Program (NSP) and the Emergency Solutions Grant (ESG).

FCHCD uses HOME funds to deliver the following HOME funded activities:

- Homeowner Rehabilitation provides deferred payment loans to improve the living conditions of low and moderate income Fulton County residents, eliminate blighted conditions in targeted neighborhoods and preserve the basic character of Fulton County's neighborhoods;
- Tenant Based Rental Assistance provides temporary rental assistance to those very low to moderate income individuals and families who are on the housing choice voucher waiting list and/or require immediate rental assistance in order to mitigate an emergency situation; and
- Home Ownership Program assists low and moderate income individuals and families of Fulton County with down payment assistance funds to purchase homes.

Additionally, FCHCD is required to set-aside at least 15% of the annual HOME allocation to fund Community Housing Development Organizations (CHDOs). CHDOs are not-for-profit and tax-exempt community based service organizations that provide housing development activities that result in safe, decent and affordable housing for low to moderate income households in Fulton County that are outside the city limits of Atlanta, Roswell and Sandy Springs.

OBJECTIVE

The objective of our monitoring audit included assessing the effectiveness of procedures and controls implemented by the FCHCD resulting from previous recommendations provided by HUD.

SCOPE

The audit period for this review consists of the second and third quarter of 2015 (April 1, 2015 through September 30, 2015).

METHODOLOGY

To accomplish our audit objectives, we evaluated FCHCD's overall administration of the HOME Program, which included a review of staffing, financial management and the administration of the HOME-funded activities. During our evaluation, we performed audit procedures to ensure:

- Proper documentation was obtained, reviewed and approved prior to disbursing HOME Program funds;
- HOME Program funds were committed by the required deadline;
- HOME Program activities were accurately recorded in HUD's Integrated Disbursement and Information System (IDIS);
- Proper monitoring was conducted of the HOME Program and projects;
- Appropriate documentation was maintained to validate compliance with HOME Program requirements and support performance information;
- HOME Program activities were provided to eligible recipients;
- Adequate staffing exists to effectively administer the HOME Program; and
- Appropriate actions were taken to recover all HOME Program funds invested in activities that could not be completed within a timely manner.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our findings and recommendations are detailed below:

FINDINGS AND RECOMMENDATIONS

Finding 1 – Lack of Adequate Staffing

HUD guidelines require adequate staffing and structure to effectively administer its programs. In 2008 the HOME Program was cited for inadequate staffing during an audit conducted by the Office of Inspector General. As a result, FCHCD made an agreement with HUD and provided a staffing plan that would ensure FCHCD maintained an adequate staffing level to eliminate or decrease the possibility of losing future grant funds. However, budgetary constraints and staff turnover has prevented FCHCD from adhering to those staffing requirements.

As previously noted during our HOME Follow-up Review, FCHCD is in the process of conducting a departmental reorganization in an attempt to increase the department's operational efficiency. Although the reorganization is still in process, we noted the following staffing deficiencies related to areas of the HOME Program:

- **Fiscal and Financial Reporting:** A Fiscal Community Development (CD) Manager position was established during the 2015 budget process; however, the position is currently vacant. As a result, there is only one (1) Fiscal CD Specialist performing all fiscal duties for the entire department including all HUD funded programs and the other FCHCD divisions, which includes Emergency and Transitional Housing as well as Grants and Community Partnerships. The workload for the Fiscal CD Specialist continues to increase without adequate support or immediate oversight. This has caused a delay in the completion of significant fiscal deliverables.
- **HOME Program projects/activities:**
 - **Tenant Based Rental Assistance projects/activities:** Currently, FCHCD has taken over the responsibility of administering the Tenant Based Rental Assistance Program due to the Housing Authority of Fulton County's (HAFC) non-compliance with NSP. This has increased duties and tasks related to the administration of the program and added more fiscal responsibilities.
 - **Home Ownership Program projects/activities:** The CD Specialist responsible for managing the Home Ownership Program projects also performs duties related to managing the CDBG Program. The CD Specialist conducts a vast amount of duties for both CDBG and Home Ownership Program. This has caused a delay in the CD Specialist's ability to conduct monitoring for Home Ownership Program in a timely manner.

Insufficient staffing levels and increased workloads may affect the staff's quality of work and increases the likelihood of errors and missed deadlines. This could lead to a decrease in the HOME Program's operational effectiveness and reduce the efficiency of the HOME Program's administration. More importantly, not maintaining adequate staffing levels that were agreed upon by HUD could result in a loss of current funding and may increase the risk of the County's ability to obtain future grant funding.

Recommendation

During the process of the departmental reorganization, FCHCD management should take the necessary steps to acquire the staffing capacity needed for FCHCD to effectively administer the HOME Program. Specifically, we recommend management work to immediately fill the Fiscal CD Manager position in order to strengthen internal controls and properly segregate financial duties. Management should also evaluate the staff's current workloads to determine where additional resources may be needed.

Finding 2 – Ineffective Management of Staff

Based on HUD guidelines, proper program administration includes ensuring effective staff management that is based on the following practices:

- 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 in place that establish deadlines and track employee performance of specific tasks;
- Systems to ensure that staff receives the appropriate information to enable them to complete tasks timely; and
- A library of HOME written guidance (final rule and policy notices) should be maintained or online access to those documents should be provided as needed.

As noted during the HOME Program Follow-up Review, FCHCD is in the process of a departmental reorganization. Based on the current status of the reorganization, FCHCD was restructured to include a Division Manager, whom the CD Manager for HOME reports to for assignments and duties. The Division Manager is also responsible for tracking deliverables of program staff on a weekly basis and conducting weekly meetings. However, interviews conducted with program staff revealed that duties, responsibilities and lines of authority have not been clearly defined. Staff also indicated that tasks are assigned with deadlines that may not be considered reasonable.

Additionally, we noted a disconnect and lack of communication between management and program staff. This was evident during the course of the audit as we were provided with inconsistent information and often deterred by management from engaging with program staff. As such, we conclude that FCHCD lacks an effective management system for the HOME Program staff, which could ultimately affect the administration and successful performance of the program.

Recommendation

Management should adhere to HUD's practices for effective staff management. As such, management should ensure that duties are clearly defined, staff has a clear understanding of their responsibilities and adequate lines of communication are established and maintained. Management should also take the necessary steps to build positive working relationships and increase employee morale.

Finding 3 – Failure to Adhere to Recordkeeping Requirements

The HOME Rules related to recordkeeping requirements indicate that participating jurisdictions must establish and maintain sufficient records to document that program requirements are met. This includes project records that demonstrate compliance with income-eligibility requirements.

During our review of project files for five (5) Home Ownership Program clients, we noted instances where files were missing documentation that is required in order to determine if a client is eligible to receive down payment and closing cost assistance. Specifically,

- For 1 out of 5 clients reviewed, the Statement of Income and/or pay stub was missing for a non-applicant over the age of 18 that will be residing in the residence. It appears program staff failed to obtain adequate documentation that confirms the client met Home Ownership Program income requirements.
- For 1 out of 5 clients reviewed, bank statements of the primary applicant were missing from the file. Based on further review of the file and discussion with the HOME CD Manager, we determined that the documentation was received and reviewed adequately to determine the client's eligibility. However, due to the CD Specialists time constraints as a result of performing numerous tasks, it appears that the CD Specialist failed to properly secure the documents in the client's files.

The HOME Program failed to adhere to recordkeeping requirements and obtain required documentation necessary to demonstrate compliance with eligibility requirements. This could result in the activities being deemed ineligible or unallowable by HUD. In addition, not properly securing documentation in files could result in sensitive and confidential data being lost and increases the risk that an unauthorized individual may obtain access to client's personal information.

Recommendation

HOME Program staff should ensure all required documentation is received and reviewed prior to clients receiving funding from the HOME Program. In addition, HOME Program staff should ensure that required documentation is adequately maintained and properly secured in the program files.

Finding 4 – Lack of Segregation of Duties

Best practices indicate that adequate segregation of duties is one of the key concepts of internal controls. Adequate segregation of duties requires that certain responsibilities are assigned to different individuals and incompatible job functions consisting of initiating, recording, authorizing and/or reconciling are separated. At the time of the audit, we noted that the Fiscal CD Specialist conducted incompatible job functions. The Fiscal CD Specialist was

responsible for the setting up HOME Program projects/activities in IDIS while also recording the HOME Program's receipts and disbursement transactions in the County's AMS. The Fiscal CD Specialist was also responsible for requesting drawdown of disbursements and some financial reporting functions. Furthermore, other conflicting job functions also exist in the department as FCHCD lacks adequate financial staff and only has one (1) Fiscal CD Specialist to perform financial functions for the entire department. FCHCD's failure to adequately segregate financial duties increases the risk of fraud and inaccuracies in financial reporting.

Recommendation

In order to strengthen internal controls, management should properly segregate financial responsibilities. In the event proper segregation of duties cannot be achieved due to limited staff, management should establish the appropriate compensating controls to prevent errors and minimize the risk of fraudulent activity.

Finding 5 – Failure to Drawdown Funds Timely

HOME Program expenses should be drawn down in a timely manner to comply with HUD deadlines and to exhibit progression with HOME-funded projects. During our review, we noted FCHCD failed to submit draw down requests to the Finance Department during the months of July 2015 through February 2016 totaling \$417,817.38 in program expenses. The lack of staff and resources appears to have prevented FCHCD from ensuring the timely submission of the draw down requests to the Finance Department.

On March 31, 2016, FCHCD submitted the outstanding draw requests to the Finance Department. However, the requests were made for program expenses totaling \$290,046.91 out of the \$417,817.38 that was disbursed. Based on our analysis, of the \$127,770.47 that remains outstanding, \$10,000 has been refunded due to the cancellation of an activity and a journal voucher will be submitted to the Finance Department for the remaining total of \$117,770.47 in program expenses. The journal voucher is needed to reallocate the expenses in the County's AMS from the 2015 grant funds to any available prior year (pre-2015) grant funds. This is an attempt to properly align 2015 and any future grant funds in AMS and IDIS to conform with HUD's transition of IDIS to grants based accounting.

Failure to draw down funds in a timely manner increases the County's risk of financial hardship and increases the risk of HUD cancelling any project activities that have not been funded in IDIS within 12 months of the commitment date. Additionally, the delay in drawing down funds could also affect the HOME Program's match obligations. Since the match contribution is only recognized when funds are drawn, the delay in drawing down funds increases the risk of the HOME Program not meeting their match obligation.

Recommendation

FCHCD management should hire the staff needed to effectively conduct financial reporting, monitoring and tracking functions. In addition, we recommend management implement a system to ensure that program expenses are requested for draw down on a frequent and routine basis.

Finding 6 – Failure to Comply with Administrative Cost Principles

OMB Circular A-87 “Cost Principles for State, Local and Indian Tribal Governments”, provides principles to be applied in establishing and determining the allowability of certain costs charged to Federal grants. The principles require costs related to salaries and wages distributed for employees working on multiple activities or objectives are supported by personnel activity reports or a statistical sampling system approved by the cognizant Federal agency. Additionally, the personnel activity reports must meet the following standards:

- Reflect an after-the-fact distribution of the actual activity of each employee;
- Account for the total activity for which each employee is compensated;
- Be prepared at least monthly and coincide with one or more pay periods; and
- Be signed by the employee.

The cost principles also indicate that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges. However, the estimates may be used for interim accounting purposes, provided that the system for establishing the estimates produces reasonable approximations of activity actually performed. Necessary adjustments are to be made on a quarterly basis to reflect actual activity and budget estimates should be revised quarterly to reflect changed circumstances.

During our review, we noted that the salaries and wages for the HOME Program staff were charged to administrative costs of Federal grants including HOME, CDBG and NSP. A portion of several staff’s salaries were also charged to Fulton County’s General Fund. The salaries were allocated based on a pro rata share established by an estimated percentage of the employee’s time spent on program administration assignments. However, FCHCD management failed to require employees to adequately track the staff’s actual time spent managing and administering the federal grants. This resulted in the following:

- Program staff could not provide adequate documentation consisting of personnel activity reports or any other support that reflects the employees’ actual activity or their distribution of time related to the grants. Therefore, we were unable to determine whether the administrative costs charged to the grants were allowable;
- Adjustments to the grants’ administrative costs were not made to adequately reflect the staff’s actual activity performed in the administration of the related programs.

Therefore, we were unable to provide assurance that the established budget estimates were reasonable; and

- Possible noncompliance with the conditions of administrative costs related to NSP that requires the costs to be tied to eligible NSP activities only. We noted that a portion of the salaries and wages for three program staff were allocated to NSP and the staff performed duties related to both the HOME Program and NSP. However, due to the lack of adequate documentation, we were unable to determine whether the portion of the staff's salaries and wages allocated to NSP administrative costs were for NSP activities only and were commensurate with the pro-rata amount being charged to the NSP grant.

Failure to comply with the administrative cost requirements could result in the costs being deemed unallowable thereby, impacting the HOME Program's ability to obtain a reimbursement from HUD.

Recommendation

FCHCD should implement a process that requires program staff to adequately track the actual time spent and activities conducted in the administration of their assigned grants to meet the administrative cost requirements. The process should include a review by management to ensure that the actual activity conducted by program staff is allowable and complies with grant requirements. In addition, management should ensure that the estimated allocations currently used to allocate salaries are reasonable and the adequacy of the salary allocations should be assessed quarterly. Any changes needed in salary allocations should also be properly reflected in systems that pay for those salary expenses.

Finding 7 – CHDO Noncompliance and Performance Issues

Based on HUD guidance, the FCHCD is responsible for managing its CHDO relationships and activities in a way that ensure its CHDOs comply with HOME requirements and perform according to the terms of their agreements. Specifically, the participating jurisdictions must ensure CHDO reservations result in commitments to specific projects within a reasonable timeframe and that projects progress to completion timely. In the event that performance problems arise, the participating jurisdictions are responsible for taking appropriate remedial actions.

FCHCD is currently monitoring the activity related to a CHDO, Atlanta Neighborhood Development Partnership, Inc. (ANDP). Based on an agreement with FCHCD, ANDP was to receive up to \$750,000 for the acquisition and rehabilitation of Delowe Village Apartments beginning August 1, 2014 and ending February 1, 2015. Additionally, the agreement was amended to increase the amount to \$1,021,540 for ANDP to conduct energy efficient repairs upon completion of the rehabilitation. During our review, significant performance and compliance issues were revealed that related to ANDP including the following:

- Instances of noncompliance with procurement requirements during the process to select a contractor to conduct rehabilitation activities;
- In an attempt to quickly complete the rehabilitation and lease apartments quickly, Glass Ratnor, the property company for Delowe Village Apartments, used their vendors to repair units. As a result, ANDP failed to comply with Davis Bacon requirements. In addition, FCHCD was unable to ensure units comply with Housing Quality Standards.
- A failure to adhere to Uniform Relocation Assistance and Real Property Acquisition Act by not providing tenants with a “Do Not Move Notice”;
- The inability to ensure units comply with Housing Quality Standards; and
- Submission of reimbursement requests with inadequate documentation or support.

Due to the many compliance issues, HOME Program staff has made a recommendation to management to terminate the CHDO’s activities as this exposes FCHCD to findings from HUD and the possible liability for repayment. However, FCHCD management has continued to provide ANDP with many opportunities to rectify the performance and compliance issues by requiring ANDP to provide corrective action plans and offering technical assistance.

Furthermore, the progression of the project has been delayed as there is a remaining total of \$505,540 committed to the project, which includes \$234,000 for completion of the rehabilitation activities and \$271,540 to conduct the energy efficient repairs. However, ANDP has only submitted adequate documentation to support \$70,515 in rehabilitation expenses and will not begin procuring contractors for the energy efficient repairs until June 1, 2016.

Recommendation

FCHCD management should closely monitor ANDP to ensure all compliance and performance issues are adequately addressed. In addition, management should take necessary actions to recommit any funds that will not be expended for the Delowe Village Apartment’s rehabilitation activities.

AUDIT CONCERN 1 – Inefficient Administration of Tenant Based Rental Assistance Program

Based on HOME Rules, Tenant Based Rental Assistance may be operated by the participating jurisdiction, or may contract with a public housing authority or other entity with the capacity to operate a rental assistance program. To meet Tenant Based Rental Assistance program requirements, Fulton County entered into an agreement with the Housing Authority of Fulton County (HAFC) to administer the Tenant Based Rental Assistance program as a subrecipient. Based on the agreement, HACF provided rental assistance based on the HAFC’s Housing Choice Voucher Program and receives funding biannually to cover the payments for rental assistance. In addition, the HAFC provided assistance to tenants through an assistance contract with the owners that lease units to an assisted family. However, due to HAFC’s noncompliance with the NSP, a decision was made to temporarily suspend funding to HAFC for all programs. As a result, FCHCD management took over HAFC responsibilities for administering the Tenant Based Rental

Assistance program beginning January 1, 2016. During our review, we noted concerns as a result of FCHCD taking over the administration of the program:

- FCHCD does not have sufficient staffing capacity to adequately administer Tenant Based Rental Assistance. The functions related to the administration and financial responsibilities have significantly increased staff workloads.
- Since HAFC was contracted as a subrecipient, program funding was provided to HAFC and established by FCHCD through a purchase order. Furthermore, the rental assistance agreements were made between the HAFC and landlords for the HAFC to perform the monthly rental payments. Therefore, FCHCD lacked the capacity to provide the fiscal responsibilities of Tenant Based Rental Assistance consisting of making rental payments to the landlords or providing the tenants with established utility allowances. As a result, the landlords were required to complete the County's vendor registration process in order to receive rental assistance payments. This caused a delay in the landlord's receipt of rental payments in January, February and March of 2016. In addition, assistance for tenant's utility allowances were also delayed; and
- FCHCD is not experienced in administering Section 8 programs. Therefore, FCHCD is unable to adequately ensure compliance with Section 8 subsidy requirements and adequately conduct tenant re-certifications.

FCHCD lacks the necessary infrastructure to effectively administer the Tenant Based Rental Assistance program. This may have resulted in a hardship to some of the program participants. Furthermore, the current state of the Tenant Based Rental Assistance Program administration increases the risk of noncompliance with HUD requirements.

In April 2016, the HAFC and Fulton County successfully reached a settlement in regards to NSP and Tenant Based Rental Assistance. Since the settlement has been reached, Fulton County is in the process of amending the written agreement with HAFC to continue the administration of Tenant Based Rental Assistance. As such, HOME Program staff should develop an implementation plan to ensure a smooth transition once HAFC is approved to regain their role as the administrator of the Tenant Based Rental Assistance Program.

AUDIT CONCERN 2 – Possible Failure to Meet Commitment Deadline

According to HOME Rules, FCHCD has 24 months to commit HOME funds and five (5) years to expend HOME funds. Based on our review of the HOME Deadline Compliance Report, FCHCD must commit a total of \$458,188.12 in 2014 HOME funds by May 31, 2016. During our review, the HOME Program Manager provided a detailed plan to ensure the funds were adequately committed by the deadline. The plan detailed activities and projects with tentative commitment dates. The projects and activities are in the process of being committed to not only meet the designated shortfall but exceed it by a total of \$50,838.88. However, the deadline is quickly approaching. FCHCD may be at risk for de-obligation by HUD for any funds that are not committed by May 31, 2016. HOME Program staff should work diligently to adhere to the established plan in order to successfully commit all funds before the deadline.

CONCLUSION

Our audit of the HOME Program identified several weaknesses in the administration of the program that have resulted in the following findings:

- Lack of Adequate Staffing;
- Ineffective Management of Staff;
- Failure to Adhere to Recordkeeping Requirements;
- Lack of Segregation of Duties;
- Failure to Drawdown Funds Timely;
- Failure to Comply with Administrative Cost Principles; and
- CHDO Noncompliance and Performance Issues

We recommend that the management of FCHCD and Home Program staff give immediate attention to the above findings. Management should also implement the necessary corrective actions to ensure effective administration of the HOME Program as it relates to the program's difficulties with staffing. It is imperative that management ensures compliance with required HOME Program regulations so that the program will not be exposed to a decrease in current or future funding allocations.

In addition to the above findings, we noted concerns related to the inefficient administration of the Tenant Based Rental Assistance Program and the possible failure to meet funding commitment deadline. We recommend that management take the opportunity to assess areas of concerns and make any necessary improvements.

Please provide a written response to this audit within 30 days. You may email your written response to the County Manager and Brigitte Bailey, Audit Coordinator in the Office of the County Auditor 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.