

OFFICE OF THE CITY AUDITOR

REVIEW OF THE CITY OF DALLAS HOUSING DEPARTMENT AWARD AND ADMINISTERING CONTROLS



Paul T. Garner
Assistant City Auditor

Prepared by:

Hector Collazo, Jr., CFE, CFS
Interim Sr. Audit Manager

R. Kent Henderson, CIA, CGAP
Auditor

Mark Bolten
IT Auditor

September 2, 2005

Memorandum



CITY OF DALLAS

September 2, 2005

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the Housing Department controls in awarding and administering federally-funded grant programs to sub-recipients for the period of October 1, 2002, through September 30, 2004. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

We conclude that the controls in awarding funds to sub-recipients and Community Housing Development Organizations (CHDO) that receive program funds are adequate. However, the Housing Department needs to improve their administration of grant programs providing housing opportunities for very-low, low and moderate income persons residing in the City of Dallas.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Paul T. Garner

Paul T. Garner
Assistant City Auditor

c: Mary K. Suhm, City Manager

**REVIEW OF THE CITY OF DALLAS HOUSING DEPARTMENT AWARD AND
ADMINISTERING CONTROLS**

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
Authorization	2
Scope and Methodology	2
Overall Conclusion	2
Background	3
OPPORTUNITIES FOR IMPROVEMENT	5

EXECUTIVE SUMMARY

We have conducted a review of the City of Dallas Housing Department award and administering controls federally funded grant programs to sub-recipients and Community Housing Development Organizations (CHDO). The review was limited to federally funded grant programs administered by the Housing Department. Our review period was from October 1, 2002, to September 30, 2004.

The objective of our review was to determine whether the Housing Department has adequate controls:

- For awarding federal funds to sub-recipients, and
- To administer grants awarded to sub-recipients.

In our opinion, the controls in awarding funds to sub-recipients and CHDOs are adequate.

However, the controls for administration of grant programs need improvement.

- The Housing Department needs to enhance controls to identify and notify sub-recipients and CHDO's of their needs to comply with the single audit provisions.
- The Housing Department needs to ensure that federal grant programs are administered according to the criteria established by HUD.

INTRODUCTION

Authorization

We reviewed the controls used by the City of Dallas Housing Department (Housing) in awarding and administering federally-funded grant programs to sub-recipients. We performed this review under the authority of Chapter IX, Section 2 of the Dallas City Charter, and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We performed our review in accordance with generally accepted government auditing standards and included such tests of records and review of program guidelines and procedures, as we considered necessary in the circumstances. A review is substantially less in scope than an audit. A review consists principally of inquiries and analytical procedures. The review was limited to federally-funded grant programs administered by the Housing Department and covered the period October 2002 through September 2004.

The objectives of our review were to determine whether Housing has adequate controls:

- For awarding federal funds to sub-recipients, and
- To administer grants awarded to sub-recipients.

To develop an understanding of the relevant control structure policies and procedures, we reviewed applicable federal law and regulations, City administrative directives, and departmental business process statements and flow diagrams. Relevant Request for Proposals (RFP) and executed contracts were also reviewed. To determine the level of compliance with internal policies, procedures, and criteria, a judgmental sample of grant programs administered by Housing was selected for review.

Overall Conclusion

As a result of our inquiries, analysis, and tests performed, we conclude that the controls in awarding funds to sub-recipients and Community Housing Development Organizations (CHDO) that receive program funds are adequate. However, the Housing Department needs to improve their administration of grant programs providing housing opportunities for very-low, low, and moderate income persons residing in the City of Dallas. Housing needs to ensure that processes and procedures in place meet the federal regulations, administrative guidelines, and the quality of documentation required to support program administration.

INTRODUCTION

These issues are addressed in the *Opportunities for Improvement* section of this report.

Background

Affordable housing for all citizens is a national objective established by Congress. To this end, Congress has funded several grant programs to be administered by the Department of Housing and Urban Development (HUD). These grant programs require HUD to effectively develop housing options for very low, low and moderate income families.

These programs are structured to address the specific needs of the various urban centers throughout the country by contracting with local governments to act as participating jurisdictions (PJ) on the behalf of HUD. Once selected, PJs execute legally enforceable contracts with HUD in order to receive grant funds from the federal government. These contracts stipulate that financial remedies exist within the grant programs if PJs fail to meet program objectives and responsibilities.

HUD has contracted with the City of Dallas (City) to act as a grant management agent, also known as a PJ. The City is allowed to certify and utilize organizations to participate as sub-recipients as long as the sub-recipients meet specific operational and financial criteria. As a HOME program participant, the City is required to utilize certain types of organizations to act as CHDOs. When the City uses sub-recipients and CHDOs, the City's role is increased from provider of services to the citizens to include awarding and administering contracts with these sub-recipients.

HUD provided the City with grant funds for participation in the HOME Investment Partnership Program (HOME) and in the Community Development Block Grant (CDBG) program. Specifically, HUD provided the City grant funds allocated to the Housing Department in the amounts of \$16,055,489 for FY02-03 and \$16,397,562 for FY03-04.

Per the Housing Department, under the HOME Investment Partnership Program, the Housing Department contracted with one sub-recipient, Enterprise Foundation, for approximately \$4 million in 2004 and with about fifteen CHDOs during the period 2002-2004. CHDO contracting is required by HUD and amounts to 15% of the HOME allocation to the City, approximately \$1.9 million in 2003-04.

HUD specifies program criteria for administrative tasks to ensure that the City is effectively using grant program funds to deliver decent, safe, affordable housing to its citizens. In that role, the City's Housing Department is responsible for effectively awarding and administering housing grant programs to benefit the

INTRODUCTION

maximum number of citizens while involving sub-recipient and CHDO organizations that it believes furthers national objectives.

Housing employs ten contract compliance administrators to administer all of its federal grant programs. To the extent assigned, the contract compliance administrators are responsible for ensuring that sub-recipients perform to the terms of executed contracts and that the City obtains all necessary documentation and project tracking information to assess sub-recipients' performance. This information is to be acquired and maintained so that the City may effectively report its project activity to HUD for each grant program by year.

Housing annually certifies and contracts with non-profit organizations that could be eligible for contracting as CHDOs under the HOME Investment Partnership Program. To ensure that sub-recipients and CHDOs understand the requirements to meet federal program objectives, HUD criteria dictates that the Housing Department include contractual terms that must be performed by the sub-recipient or CHDO. Certain terms of the contracts indicate that the sub-recipients or CHDOs are to provide project status to Housing on a regular schedule. The contract emphasizes that sub-recipients or CHDOs perform work on behalf of the City and that the Housing Department is responsible for the administration of the contract to ensure that the sub-recipients or CHDOs adequately perform and document their work.

To ensure that the Housing Department is properly performing in its role as project awarder and administrator according to its contractual obligations to HUD, the City created the Grants Compliance Group (GCG). The GCG functions within the Office of the City Auditor. The GCG is responsible for monitoring the effectiveness of Housing in its administration of grant programs having sub-recipients or CHDOs. The GCG is an internal control. The GCG does not administer grant programs related to affordable housing. The GCG monitors Housing and its contracted sub-recipients or CHDOs to determine if Housing is administering grant programs in compliance with federal law and regulations and with the terms of the City's contract with HUD

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, procedures, and practices concerning grant program administration that may be improved. This review was not designed, or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be comprehensive of the areas where improvements may be needed.

Grant management performed by the Housing Department lacks sufficient controls for the proper administration of federal grant programs awarded to sub-recipients and CHDOs.

We reviewed processes and activities performed by the Housing Department in support of the HOME Investment Partnership Program and found that the Housing Department lacks adequate internal controls to assure proper program performance.

We found the following:

A. The Housing Department lacks sufficient controls for the proper administration of single audits for HOME program sub-recipients and CHDOs.

The Housing Department does not have the appropriate controls in place to identify and notify sub-recipients and CHDOs of their need to comply with the single audit provisions.

The Housing Department is responsible for planning, organizing, directing, coordinating, and controlling relevant available resources for the accomplishment of identified program goals. In this role, the Housing Department may contract with a sub-recipient or CHDO, but may not relinquish its responsibility to the federal government for the administration of grant program funds.

Using the City's RESOURCE accounting system, we examined financial records related to eight sub-recipients for the period under review. We found that three of the sub-recipients were subject to the single audit provisions of OMB Circular A-133 that specifies expenditure thresholds. The Housing Department did not provide internal controls for the monitoring of total expenditures performed by a sub-recipient on behalf of the City.

The three sampled sub-recipients and CHDOs subject to the single audit provisions included two Community Housing Development Organizations (CHDOs) and the sub-recipient for the Mortgage Assistance Program (MAP). The following table indicates the A-133 threshold and expenditures for each respective year:

OPPORTUNITIES FOR IMPROVEMENT

Item	Type of Organization	Fiscal Year	A-133 Threshold Expenditures	Expenditure Per RESOURCE
1*	MAP	2003	\$300,000	\$3,173,342.66
2*	MAP	2004	\$500,000	\$4,374,307.34
3	CHDO	2004	\$500,000	\$794,941.07
4	CHDO	2004	\$500,000	\$587,757.78

* Items 1 and 2 are the same organization performing as a sub-recipient for the City in two different fiscal years

Source: RESOURCE

The obligation to acquire and maintain A-133 single audit information from sub-recipients and CHDOs is outlined in OMB Circular A-133 issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. The circular sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, local governments, and non-profit organizations expending federal awards.

The expenditure threshold test to determine if a sub-recipient or participating jurisdiction is subject to a fiscal year A-133 single audit is described in OMB Circular A-133 Subpart B Section 200 (a). This section requires a single audit of non-federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in federal awards.

Administrative Directive 4-9 clarifies the obligation of department directors to provide effective internal controls. The AD states, "It is the policy of the City of Dallas to establish and maintain a system of internal controls designed to ensure that resources are safeguarded against waste, loss, and abuse."

The Housing Department did not notify any of the three organizations listed above that their expenditures in a fiscal year had exceeded A-133 thresholds. However, the sub-recipient carrying out the Mortgage Assistance Program (MAP) submitted an A-133 Single Audit Statement to the Housing Department. The Housing Department should have internal controls to detect total sub-recipient or CHDO expenditures and administer the amount as required by the Federal regulations. Administration of A-133 Single Audit Statements should, at a minimum, include notification to a sub-recipient or CHDO when expenditure thresholds have been exceeded for a fiscal year and a requirement that any single audit statements performed by a sub-recipient or are sent to the Housing Department.

The Grants Compliance Group (GCG) relies upon A-133 single audit information administered by the Housing Department to perform monitoring activities. Since GCG rarely obtains A-133 single audit reports from the Housing Department, GCG personnel must request copies of required single audit reports directly from program sub-recipients and CHDOs.

OPPORTUNITIES FOR IMPROVEMENT

We recommend that the Director of Housing:

- Implement internal controls to:
 - a. Notify sub-recipients and CHDOs when they exceed expenditure thresholds per OMB Circular A-133 during their fiscal year.
 - b. Notify sub-recipients of their need to perform a single audit in compliance with federal law and OMB Circular A-133, once a grant program sub-recipient exceeds the self-reporting threshold.
 - c. Require sub-recipients or CHDOs to submit the result of a single audit for any year in which the sub-recipient or CHDO is to perform a single audit to the Housing Department.
 - d. Suspend sub-recipients and CHDOs from participation in federal grant program awards for failure to comply with the Single Audit Act of 1986 and its subsequent amendments.
 - e. Require sub-recipients and CHDOs to submit statements periodically to the Housing Department regarding federal grant funds received from other awarding entities.
 - f. Provide a copy of the notice to GCG as per “a” above and provide a copy of the supporting financial information.

Management’s Response:

In every contract signed with our Mortgage Assistance Program sub-recipient and with each of our Community Housing Development Organizations (CHDOs), the Housing Department provides the notice of the requirements of audits, in particular A-133. In each contract, Exhibit “B”: HOME Investment Partnerships Program Contract Provisions, section II, P. Audit (b), reads “OWNER/CONTRACTOR agrees to provide to CITY a financial and compliance audit of the expenditure of HOME funds in accordance with the provisions of Office of Management and Budget Circular A-133.”

As noted by the Audit Report, the 2003 A-133 Audit for the Mortgage Assistance Program sub-recipient was submitted to the Housing Department. This action was due to the above notice and requirement. While we do not dispute the detail of expended funds per the RESOURCE accounting system of the City of Dallas, the sub-recipient and CHDOs under contract have fiscal years that follow a January to December timeframe. With that in mind, we normally receive an audit for the prior year activity by mid-year following the close of an entity’s fiscal year, allowing time for the sub-recipient or CHDO to have their accountants perform the audit.

At this time, we have been provided the FY 2004 A-133 audit for the Mortgage Assistance Program sub-recipient and one of the two CHDOs mentioned in this report. We believe that the contract notification of this particular requirement is

OPPORTUNITIES FOR IMPROVEMENT

sufficient to provide us the A-133 Audits and do not agree that additional notification or reminders are necessary. As with all requirements, we agree that if a sub-recipient or CHDO does not comply, the punitive measures include suspension of other contract work. Since we did not know of Grants Compliance Group's need for the A-133 audits, we will gladly provide this information as it is submitted to the Housing Department. Because of their diligence in monitoring, the Grants Compliance Group often receives a copy before we receive ours.

B. Program administration needs to update and formalize its present reporting controls.

The business process flows of the Housing Department do not specifically address providing necessary documentation to the Grants Compliance Group (GCG) for sub-recipient and CHDO projects. The Housing Department does not fulfill information needs of the GCG to ensure effective monitoring of Housing Department projects.

We found that the Housing Department procedures for project information needs do not provide sufficient detail to effectively control staff. Ineffective process control may lead to operational failures.

We found that the Housing Department did not have appropriate internal controls to regularly notify GCG with documentation needed for monitoring purposes. Copies of executed contracts, "Start Work" orders (also known as "Proceed with Work" or "Proceed" orders) and weekly work schedules for sub-recipients and CHDOs are not being consistently provided to the GCG. As an example, we found that the Housing Department had not notified GCG of the existence of an executed contract for the Minor Home Repair program.

Administrative Directive 2.1 describes the need for policies and procedures and indicates that said items apply to all officers and employees of the City. Section 2.2 of the AD indicates that policies and procedures provide for "the uniform administration and effective and efficient coordination of the function of the City of Dallas."

The Housing Department issued a memorandum directing contract administrators to provide copies of executed contracts upon receipt to GCG. The memorandum also directed contract administrators to provide copies of weekly work schedules from sub-recipients and CHDOs to GCG upon receipt from sub-recipients and CHDOs.

The Housing Department does not always send project related information and documentation to GCG for federally funded grant program projects. HUD

OPPORTUNITIES FOR IMPROVEMENT

regulations require that sub-recipient and CHDO projects are properly administrated and monitored.

Non-receipt of project documentation prevents GCG from performing its mission of monitoring sub-recipients and CHDOs. It also impedes GCG from monitoring Housing Department administration. The Housing Department's failure to provide necessary documentation to GCG impacts the quality of the monitoring process. Insufficient project documentation and monitoring leaves the City liable to HUD for repayment of project funds.

We recommend that the Director of Housing ensure that:

- The department revises the business process flows and internal controls to include the distribution of relevant documentation to other City departments and interested parties.

Management's Response:

Whenever other Departments/interested parties request information, the Housing Department strives to provide that information as quickly as possible. While we would like the request to be made in writing, we have also honored verbal requests. We believe that we have a good relationship with the Grants Compliance Group and particularly the individual auditors assigned to monitor Housing activities throughout the year. We are not currently aware of any information needs that have not been addressed with GCG. With concern for continual improvement, we will strive to make sure each of the GCG auditors has all the information they need to perform their duties more effectively.

C. The Housing Department is not following established criteria for information collection during CHDO certification process.

Based upon a sample of 12 CHDO certification packets administered by the Housing Department, we found documentation missing. Only one of the certification packets was found to be complete. The remaining 11 packets had various levels of completeness. In spite of Housing Department and HUD application guidelines for certification, we found that some documentation, once presented, was no longer collected by the Housing Department. Missing documentation types included IRS 501(c)(3) status statements, articles of incorporation, audited financials, required resumes, statements of community support, list of board members, and statements of geographic boundaries.

HUD requires certain documentation to be collected on an annual basis by participating jurisdictions in support of CHDO activities. HUD Notice CPD-97-11, Attachment A, indicates the documents that are to be collected annually from

OPPORTUNITIES FOR IMPROVEMENT

CHDO applicants. The Housing Department uses this document list in its certification policy for CHDOs.

The Housing Department also provides documentation guidelines to CHDO applicants for initial or subsequent submittal of application in its document titled "City of Dallas Housing Department Community Housing Development Organization Certification Policy." This document indicates that an organization must supply all relevant document choices at the time of application.

Federal government regulations and circulars specify the required documentation for grant programs administered by HUD. Required documentation is discussed in 24 CFR 92.2 and enumerated in HUD Notice CPD-97-11. Also, the State of Texas CHDO Application Summary illustrates the documentation required in the CHDO certification process.

The Housing Department does not properly administrate federal grant program according to the criteria established by HUD. The Housing Department fails to collect required documentation on an annual basis as specified by HUD. The Housing Department does not follow its published certification policy in the collection of required program documentation. The Housing Department's record and file management processes do not provide ready access to needed documentation. The Housing Department's record and file management processes do not identify missing or non-current information.

Acquisition and retention of necessary documentation as required by HUD must be fulfilled by a participating jurisdiction, i.e., the City. Failure to fulfill the administrative obligations imposed by HUD potentially subjects the City of Dallas to the following possible corrective and/or remedial actions:

- Reduction in HOME funds by amount of unapproved expenditures.
- Prevent withdrawals from the City's HOME Trust Fund account for activities affected by failure to comply.
- Repayment of paid-out administered grant funds to HUD from the General Fund.
- Restrict the City to activities directly monitored by HUD.
- Remove the City from participation in specific HUD programs.

We recommend that the Director of Housing ensure that:

- The Housing Department adhere to document collection directives as denoted in HUD Notice CPD-97-11 and detailed in the Housing Department's document entitled "Community Housing Development Organization Certification Policy," to ensure all necessary documentation is collected from CHDOs at the time of certification application.

OPPORTUNITIES FOR IMPROVEMENT

- Housing develops internal controls that will ensure that all collected documentation from a sub-recipient or CHDO is maintained in a readily accessible manner.

Management's Response:

With regard to this particular concern, the Housing Department **certifies** new non-profits who wish to apply for City of Dallas-CHDO funding and **recertifies** active non-profits to ensure that they remain in good standing. The distinction between **certification** and **recertification** means that certain items are not expected to change from year to year with active CHDOs. In fact, HUD has provided guidance in HOME Program Information Bulletins stating that the City of Dallas-Housing Department should minimally **recertify** CHDOs each time they receive a set-aside allocation. However, the Housing Department wants CHDOs to be in good standing all the time; therefore, **recertification** is performed by the Housing Department regardless of whether funding is provided or not. This action is above and beyond HUD requirements.

The standard letter for annual **recertification**, that is provided to active CHDOs, requests every checklist item as in HUD Notice CPD-97-11. However, we note in the letter that certain items only need to be submitted if they have been amended (e.g. Articles of Incorporation, Boundaries of the adopted area, 501 (c) (3) determination letter, staff). We address this letter to "All **Certified** Community Housing Development Organizations (CHDO)." If new organizations wish to be certified, there is an introductory package provided and it includes a request for the entire checklist of documents noted in HUD's Notice and Housing Department policy.

We do agree that better filing methods can be developed to combine all original **certification** materials and **recertification** materials for active CHDOs. We will convene an internal review panel to review our filing practices and offer suggestions for changes by December of 2005.