



City of New Orleans, LA

**Recovery Act Homelessness Prevention and
Rapid Re-Housing Program**



Issue Date: September 24, 2013

Audit Report Number: 2013-FW-1008

TO: Cheryl S. Breaux, Director,
Office of Community Planning and Development, 6HD

//signed//

FROM: Gerald Kirkland
Regional Inspector General for Audit, Ft. Worth Region, 6AGA

SUBJECT: The City of New Orleans, LA, Did Not Have Adequate Financial and
Programmatic Controls To Ensure That It Expended and Reported Funds in
Accordance With Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the City of New Orleans' American Recovery and Reinvestment Act of 2009 Homelessness Prevention and Rapid Re-Housing Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



September 24, 2013

The City of New Orleans, LA, Did Not Have Adequate Financial and Programmatic Controls To Ensure That It Expended and Reported Funds in Accordance With Program Requirements

Highlights

Audit Report 2013-FW-1008

What We Audited and Why

In accordance with our goal to review American Recovery and Reinvestment Act of 2009 funds, we reviewed the City of New Orleans' Homelessness Prevention and Rapid Re-Housing Program. Our objective was to determine whether the City had adequate financial and programmatic controls to meet Program requirements.

What We Recommend

We recommend that the Director of the U. S. Department of Housing and Urban Development's (HUD) New Orleans Office of Community Planning and Development require the City to (1) repay \$134,770; (2) support or repay more than \$159,000; (3) review the remaining \$192,681 charged to the administrative cost category for eligibility; (4) correct \$28,430 in data entry errors in the homeless management information system (HMIS); (5) review potential duplicate assistance shown in its HMIS, correct the data as warranted, and repay any duplicate amounts, thereby putting \$465,506 to better use; and (6) require the City to reconcile its financial records to its subgrantee and the Integrated Disbursement and Information System (IDIS).

What We Found

The City did not have adequate financial and programmatic controls over its Program to ensure that it expended and reported funds in accordance with requirements. Specifically, the City (1) paid Program costs with administrative funds, (2) exceeded its administrative budget, (3) charged costs incurred for its other grant programs to the Program, (4) did not always ensure that its subgrantee supported participant eligibility determinations, (5) did not ensure that its subgrantee properly tracked and recorded participant data in HMIS, (6) did not ensure that its subgrantee maintained approved budget revisions or amended its contracts to ensure that it did not exceed contract costs, and (7) did not ensure that its or its subgrantee's financial records reconciled to the expenditures in IDIS. These conditions occurred because the City (1) did not adequately maintain and track its budget to ensure that it made payments from the correct cost category and within budgeted amounts, (2) circumvented controls to pay expenditures from incorrect cost categories, (3) had no written policy to process expenditures until 2 months after the Program ended, and (4) did not always provide adequate oversight to its subgrantee. As a result, the City incurred \$134,770 in ineligible and \$159,987 in unsupported costs. It also allowed \$28,430 in data entry errors in the HMIS and potentially paid \$465,506 in duplicate financial assistance. Thus, the City could not provide reasonable assurance that it had access to accurate information about the use of Recovery Act funds.

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BACKGROUND AND OBJECTIVE

On February 17, 2009, the President 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 administered by the U. S. Department of Housing and Urban Development's (HUD) Office of Community Planning and Development. Funding for the program was distributed based on the formula used for the Emergency Shelter Grants program.

The purpose of the Program was to provide homelessness prevention assistance for households that would otherwise become homeless and rapid rehousing assistance for persons who were homeless as defined by Section 103 of the McKinney Vento Homeless Assistance Act.¹ The Program provided temporary financial assistance and housing relocation and stabilization services to individuals and families who were homeless or would be homeless but for this assistance. Other eligible Program activities included data collection and evaluation and administrative services.

On July 31, 2009, HUD entered into a Program grant agreement with the City of New Orleans, awarding the City more than \$7.5 million. HUD allowed the City to distribute funds to subrecipients, such as local governments or private nonprofit organizations, to carry out Program activities. As part of the grant agreement, HUD required the City to ensure that each subrecipient fully complied with Program requirements.

To assist in executing the Program, the City entered into a subgrant agreement with Unity of Greater New Orleans on November 30, 2009. In turn, Unity selected 10 project sponsors to carry out Program activities and provide resources to the community. Unity's project sponsors included Travelers Aid, Total Community Action, Hope House, Community Service Center, Alternative Living, Family Services of Greater New Orleans, Episcopal Community Services, Odyssey House, the Salvation Army, and Southeast Legal Services.

HUD required the City to obligate funds by September 30, 2009, and report demographic information on homeless people served, as well as the exact dates that they entered and exited the Program in the Homeless Management Information System (HMIS).² In turn, the City required Unity and its project sponsors to enter the Program's participant data into HMIS. The Recovery Act required the City to expend 60 percent of Program funds by July 31, 2011, and 100 percent of funds by July 31, 2012. HUD allowed the City to continue drawing down funds, until October 29, 2012, from its Integrated Disbursement Information System (IDIS)³ to reimburse expenditures incurred before July 31, 2012.

Our objective was to determine whether the City had adequate financial and programmatic controls to meet Program requirements.

¹ 42 U.S.C. (United States Code) 11302

² HMIS is the primary tool for obtaining data on the use of Program funds awarded and persons served.

³ The IDIS is a nationwide database that provides HUD with current information regarding the program activities including funding data which is used to monitor grantees. HUD required grantees to use IDIS to drawdown Program funding and report on grant expenditures.

RESULTS OF AUDIT

Finding: The City Did Not Have Adequate Financial and Programmatic Controls Over Its Program To Ensure That It Expended and Reported Funds in Accordance With Program Requirements

The City did not have adequate financial and programmatic controls over its Program to ensure that it expended and reported funds in accordance with Program requirements. Specifically, the City (1) paid Program costs with administrative funds, (2) charged costs to the Program that were incurred for its other grant programs, (3) exceeded its maximum 5 percent administrative budget, (4) did not ensure that Unity made adequately supported participant eligibility determinations, (5) did not ensure that Unity and its project sponsors adequately tracked and recorded participant data in the HMIS, (6) did not ensure that Unity maintained documentation supporting approved budget revisions or amended its contracts to ensure that its project sponsor and contractor costs did not exceed the contracted amount, and (7) did not ensure that its or Unity's financial records reconciled to the expenditures in IDIS. These conditions occurred because the City did not take the appropriate steps to safeguard funds, as it (1) did not adequately maintain and track its budget to ensure that it made payments from the correct cost category and within budgeted amounts; (2) circumvented accounting controls to pay expenditures from incorrect cost categories; (3) did not have a written policy in place on how to process reimbursement requests for Program expenditures until September 2012, 2 months after the Program ended; and (4) did not always provide adequate oversight of Unity. As a result, the City incurred \$134,770 in ineligible and \$159,987 in unsupported costs. It also allowed \$28,430 in data entry errors in the HMIS. Further, the City potentially paid \$465,506 in duplicate financial assistance. Thus, it could not provide reasonable assurance to HUD and the public that it had access to accurate information about the use of Recovery Act funds.

The City Charged Ineligible Administrative Fees

A review of 10 expenditure files, containing support for 10 disbursements totaling more than \$198,000 from the administrative funds, determined that for 7 disbursements, the City (1) paid Program costs with administrative funds, (2) charged costs to the Program that were incurred for different grant programs, and (3) exceeded its maximum 5 percent administrative fee threshold. Specifically,

- In four instances, the City paid a total of \$100,416 for ineligible costs⁴ related to Program costs that were unallowable charges to the administrative cost category. These charges included Unity's and project sponsors' staff salaries,

⁴ According to Federal regulations these costs were not allowed to be charged to the administrative cost category. Since the charges were to the administrative costs category, we evaluated them to determine their eligibility as administrative costs. We did not evaluate their eligibility as a Program cost.

utility arrearages, participant rental assistance, and data collection activities. Federal Register 5307-N-01, section IV, part A, prohibited the City from using its administrative funds to pay these costs.

- The City paid the New Orleans Music Hall of Fame and Luther Speight for costs not related to the Program but related to two of its other grant programs.⁵ Federal Register 5307-N-01, section IV, part A, and section V, part F, held the City responsible for ensuring that it administered its Program funds in accordance with the requirements and charged only eligible Program activity costs. Of the \$9,248 erroneously charged to the Program, the City repaid \$8,692 on April 29, 2013, leaving \$556 in ineligible costs.
- The City paid costs that caused it to exceed its 5 percent administrative budget threshold limited by Federal Register 5307-N-01, section IV, part A. Specifically, instead of charging \$378,908 (5 percent) to its administrative cost category, it charged \$390,687 (5.15 percent). The \$11,779 overage was ineligible. With the \$8,692 repayment previously discussed, the City reduced its ineligible overage to \$3,087.

Participant Files Lacked Support for Eligibility

A review of 23 participant files with disbursements totaling \$293,432 determined that for 14 participants, the City did not ensure that Unity fully supported its eligibility determinations, thereby incurring almost \$45,000 in unsupported and ineligible costs as shown in table 1. Some files contained multiple deficiencies.

⁵ The City charged the costs to its State of Louisiana Homeless Prevention and Rapid Re-Housing Program and Community Development Block Grants.

Table 1:

Deficiency	Number of files with deficiencies	Ineligible costs	Unsupported costs
Lacked annual habitability inspection ⁶	12	\$29,451	0
Assistance received before approval into the Program ⁷	3	1,260	0
Assistance paid in excess of monthly lease amount ⁸	1	21 ⁹	0
Assistance paid for more than 18 months ¹⁰	1	495 ¹¹	0
Inadequate income documentation ¹²	1	0	\$ 2,250
No documentation supporting area median income requirement ¹³	1	0	11,990
Totals		\$30,711	\$14,240

In addition, although it did not affect eligibility, Unity's participant files did not always contain documentation required by its policies¹⁴ as shown in table 2.

Table 2:

Deficiency	Number of files with deficiencies
Inadequate utility documentation	12
Inadequate exit documentation	11
Inadequate identification information	4
Inadequate homeless verification letter	1
Lack of rent reasonableness documentation	4
Lack of lead-based paint inspection	1
Lack of income documentation or staff affidavits at recertification	1

HMIS Contained Duplicate Payments and Did Not Reconcile to Unity's Records

A review of the HMIS, the primary data collection tool for the Program, determined that amounts paid for participants contained potential duplicate payments and did not reconcile to Unity's financial records. Specifically, of 1,322 participants listed in the HMIS, with financial assistance totaling more than \$4.3 million, the HMIS listed potential duplicate assistance for 447 participants (34 percent) totaling \$493,936. Review of the payment history for six participants

⁶ Federal Register 5307-N-01, section VII, part C

⁷ HUD's Eligibility Determination and Documentation Guidance, Section 5-Documentation Standards

⁸ Federal Register 5307-N-01, section IV, part A

⁹ Amount included in \$29,451 above

¹⁰ Federal Register 5307-N-01, section IV, part A

¹¹ Amount included in \$29,451 above

¹² HUD's Eligibility Determination and Documentation Guidance, Section 5-Documentation Standards

¹³ Federal Register 5307-N-01, section IV, part D

¹⁴ Unity's Guide to Paperwork, Procedures, and Policies

with potential duplicate assistance totaling \$28,430 showed that Unity made data entry errors, but no duplicate payments occurred.¹⁵ According to Unity, it believed that all of the potential duplicate payments were data entry errors. However, since Unity’s project sponsors also entered data into the HMIS and Unity did not have access to its project sponsors’ financial records, it could not provide certainty that the remaining \$465,506 did not represent duplicate payments.

In addition, an analysis of Unity’s financial records as compared to the HMIS determined that Unity’s total financial assistance expenditures of more than \$5 million exceeded the amount of financial assistance reported in the HMIS of more than \$4.3 million, a \$679,100 discrepancy. Unity could not provide an explanation regarding the discrepancy.

Project Sponsors and Contractors Exceeded Contract Amounts

A review of Unity’s financial records compared to project sponsor and contractor agreements determined that the amount of funding paid to three project sponsors and one contractor¹⁶ exceeded the agreement amounts by \$145,747 as shown in table 3.

Table 3:

Entity	Contracted amount	Unity general ledger payments	Contract overage
Hope House	\$ 576,537	\$ 643,520	\$ 66,983
The Salvation Army	674,471	725,878	51,407
Southeast Legal Services	155,178	172,238	17,060
VIA Link	118,500	128,797	10,297
Total	\$1,524,686	\$1,670,433	\$145,747

Any revisions to the project sponsors’ or contractors’ budgets or agreements required written approval from the City. However, neither Unity nor the City could provide written documentation approving the contract overages.

¹⁵ These six participants were assisted by Unity during the Program. We reviewed these participants because they were within our participant eligibility sample. Thus, we had all landlord and Unity transaction data needed to trace all of the payments for duplicates. We did not review participants who were assisted by other project sponsors.

¹⁶ Hope House, The Salvation Army, and Southeast Legal Services were project sponsors. VIA Link was a contractor.

Financial Records Did Not Reconcile to IDIS Expenditures

An analysis of the City’s internal budget and cost control statements¹⁷ compared to IDIS expenditures determined that the budgets and expenditures did not reconcile, generating misclassified funds as shown in table 4.

Table 4:

Cost category	City budgeted amount	IDIS expended amount	Difference
Housing relocation and stabilization	\$ 1,829,315	\$ 1,993,417	\$ 164,102
Financial Assistance	5,142,600	5,092,902	(49,698)
Unity administrative costs	265,235	261,235	(4,000)
City administrative costs ¹⁸	113,673	129,451	15,778
Data collection and evaluation	227,345	101,163	(126,182)
Total	\$7,578,168	\$7,578,168	

Federal Register 5307-N-01, section V, part F, required the City to ensure that it administered Program funds in accordance with Program requirements and other applicable laws. When asked, the City asserted that the data did not reconcile because the City needed to move funding from the data collection cost category to other categories to serve more clients who were in need. However, the City could not provide documentation supporting this assertion or that it had an authorized budget revision. Also, reducing the data collection cost category to \$101,163 caused the City to misclassify funds. For example, as previously discussed, the City paid unallowable data collection costs with administrative funds.

In addition, IDIS expenditures did not reconcile to Unity’s expenditures reflected in its cost control statement. A comparison of the IDIS expenditures to Unity’s expenditures showed that none of the expended amounts reconciled as shown in table 5.

Table 5:

Cost category	IDIS expended amount	Unity expended amount	Difference
Housing relocation and stabilization	\$1,993,417	\$1,961,414	\$ 32,003
Financial assistance	5,092,902	5,013,946	78,956
Unity administrative costs	261,235	227,345	33,890
Data collection and evaluation	101,163	257,791	(156,628)
Total	\$7,448,717	\$7,460,496	(\$11,779)

¹⁷ Cost control statements are documents the City used to track Program budgets and costs.

¹⁸ Although the City did not have budget cost control statement documentation supporting the amount, the City indicated that it reserved \$113,673 for its Program administrative costs.

The City Did Not Take the Appropriate Steps To Safeguard Funds

The City did not take the appropriate steps to safeguard funds. Specifically, it did not have a written policy in place for processing expenditures until September 2012, 2 months after the Program ended. This contributed to its inability to consistently pay expenditures from the correct cost category and within budgeted amounts. According to the City, it began to run out of funding in its cost categories. Thus, it began paying expenditures from whatever category had funds remaining. In doing this, the City disregarded appropriate accounting procedures and violated Program requirements.

In addition, although the City monitored and communicated with Unity and its project sponsors during the Program, its oversight was sometimes lacking as (1) Unity was not always aware of the Program requirements, and (2) Unity and its project sponsors disregarded requirements. Further, according to the City, it had several meetings with Unity to reconcile its accounting records and believed that, when reconciling the funds, Unity's accounting records should be used and not its cost control statements. However, Unity contradicted the City's assertion, stating that (1) in its accounting records it did not categorize Program expenditures in line with the four Program cost categories used by the City, and (2) its final cost control statement reflected the final expenditure amounts and should be used in determining expended funds by category.

When we informed the City of the potential duplicate assistance payments in HMIS, it stated that it did not have access to the HMIS during the Program and it was difficult to obtain HMIS information from Unity. Without access to the data, the City could not have provided adequate oversight to ensure that Unity and its project sponsors adequately tracked and recorded participant data in the HMIS.

Conclusion

Because the City did not take the appropriate steps to safeguard Program funds, it (1) paid Program costs with administrative funds; (2) charged costs to the Program that were incurred for the City's other grants; (3) exceeded its maximum 5 percent administrative budget; (4) did not ensure that Unity made eligibility determinations that were adequately supported; (5) did not ensure that Unity and its project sponsors adequately tracked and recorded participant data in the HMIS, which resulted in either duplicate payments made on behalf of these participants or material inaccuracies reported to HUD; (6) did not ensure that Unity maintained documentation supporting approved budget revisions or amended its contracts to ensure that its project sponsor and contractor costs did not exceed the contracted amount; and (7) did not ensure that its or Unity's financial records reconciled to the City's expenditures in IDIS.

As a result, the City incurred \$134,770 in ineligible and \$159,987 in unsupported costs. It also allowed \$28,430 in data entry errors in the HMIS and potentially made \$465,506 in duplicate financial assistance payments reflected in its HMIS for 441 participants. Thus, the City could not provide reasonable assurance to HUD and the public that it had accurate information about the use of Recovery Act funds. Since the City's Program ended July 31, 2012, we did not recommend corrective actions for its internal controls.

Recommendations

We recommend that the Director of HUD's New Orleans Office of Community Planning and Development require the City to

- 1A. Repay to HUD for its transmission to the U.S. Treasury \$100,416 for ineligible costs charged to the administrative cost category.
- 1B. Repay to HUD for its transmission to the U.S. Treasury \$556 for ineligible costs that the City erroneously paid from Program funds that were chargeable to the City's subgrant from the State of Louisiana's Program.
- 1C. Repay to HUD for its transmission to the U.S. Treasury \$3,087 for ineligible costs that the City incurred as a result of its exceeding the maximum 5 percent administrative budget.
- 1D. Perform a detailed review of the remaining \$192,681¹⁹ charged to the administrative cost category in IDIS to ensure that these costs were chargeable to this category and repay to HUD for its transmission to the U.S. Treasury any unallowable or unsupported costs.
- 1E. Repay to HUD for its transmission to the U.S. Treasury \$30,711 for ineligible costs paid on behalf of 14 Program participants.
- 1F. Provide support regarding the income eligibility of two participants or repay the \$14,240 paid on behalf of the participants to HUD for its transmission to the U.S. Treasury.
- 1G. Correct HMIS data entry errors totaling \$28,430 for the six participants reviewed so that the HMIS payments will accurately reflect the amounts paid in the financial records.

¹⁹ \$390,687 (total administrative costs) - \$198,006 (total administrative costs reviewed) = \$192,681 (remaining administrative costs)

- 1H. Review potential duplicate assistance identified in HMIS associated with 441 Program participants, correct the HMIS data based on actual financial records, or repay to HUD for its transmission to the U.S. Treasury any amounts paid that were duplicate payments, thereby potentially putting \$465,506 to better use.
- 1I. Support that it either (1) provided written approval to undertake actions that allowed the project sponsors and contractors to exceed contract amounts or (2) maintained documentation evidencing authorized revisions to the project sponsor and contractor budgets or repay \$145,747 to HUD for its transmission to the U.S. Treasury for Program funds paid to three project sponsors and one contractor that exceeded the contract amounts.
- 1J. Require the City to reconcile its financial records with those of Unity and IDIS. These records include but are not limited the City's and Unity's budgets and Unity's expenditures.

SCOPE AND METHODOLOGY

We conducted our audit at the City's and Unity's offices as well as the HUD Office of Inspector General's (OIG) office in New Orleans, LA, between April and August 2013.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and program guidance.
- Reviewed City and Unity organizational charts and written policies for the Program.
- Reviewed the City's Recovery Act-related obligations and expenditures.
- Reviewed the grant agreement between HUD and the City including the substantial amendment, contract agreements between the City and Unity, and contract agreements between Unity and its project sponsors or contractors.
- Reviewed Program participant files.
- Reviewed the City's Program budgets as compared to the expenditures in IDIS and Unity's budgets.
- Reviewed the City's total IDIS expenditures per cost category as compared to Unity's.
- Interviewed appropriate HUD, City, and subgrantee staff members.
- Analyzed the participant and disbursement data in the HMIS.

The City had 60 Program disbursements totaling more than \$7.5 million. It made 55 disbursements totaling \$390,687 from the administrative cost category. Using a nonstatistical sample, we selected 10 of the 55 disbursements totaling more than \$198,000 in order to review at least 50 percent of the administrative funds. We reviewed the disbursements to determine eligibility and whether the City disbursed the funds in accordance with Program requirements. Through file reviews, we assessed the reliability of computer processed data regarding disbursements and determined that the disbursement data were generally reliable.

Of the 1,322 Program participants reflected in the City's HMIS, 37 did not receive funding assistance. The remaining 1,285 participants, our revised universe of participants, received more than \$4.3 million in Program financial assistance. Using a nonstatistical sample, we selected 23 participants whose assistance totaled \$289,432 and who appeared to have received more than 18 months of assistance and potential duplicate rental payments. We reviewed the files for the participants to determine whether they met Program eligibility requirements and whether eligibility determinations were adequately supported. We assessed the reliability of computer processed data regarding the participant data. Through the file reviews we determined that the participant data were not reliable because of discrepancies identified related to the amount of Program assistance paid in the HMIS as compared to the supporting documentation.

Our audit scope covered July 31, 2009, through September 30, 2012. We expanded the scope as necessary to accomplish our audit objective. 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:

- Financial controls intended to ensure that Program expenditures comply with HUD regulations, procedures, and instructions.
- Programmatic controls intended to ensure that participants meet Program eligibility requirements.

We assessed the relevant controls identified above.

A deficiency in internal control 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 City did not have adequate financial and programmatic controls over its Program to ensure that funds were expended and reported in accordance with Program requirements (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$100,416		
1B	556		
1C	3,087		
1E	<u>30,711</u>		
1F		\$14,240	
1H			<u>\$465,506</u>
1I		<u>145,747</u>	
Totals	<u>\$134,770</u>	<u>\$159,987</u>	<u>\$465,506</u>

- 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, it represents potential duplicate assistance identified in HMIS associated with 441 Program participants that if verified and corrected could put \$465,506 to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

FACILITIES, INFRASTRUCTURE AND COMMUNITY DEVELOPMENT

CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR

CEDRIC S. GRANT
DEPUTY MAYOR

September 13, 2013

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

RE: 2013 City of New Orleans Audit of LA Recovery Act Homelessness Prevention and Rapid Re-Housing Program

Dear Mr. Kirkland:

The City of New Orleans (the City) is in receipt of your discussion draft audit report of the Louisiana Recovery Act Homelessness Prevention and Rapid Re-Housing Program dated August 29, 2013 conducted by the U.S. Department of Housing and Urban Development, Office of Inspector General beginning on April 8, 2013.

Enclosed please find the City's response to the findings and recommendation as noted:

- Comment 1** Misclassification of Expenditures
The City requests that the finding be revised to reflect the costs described in number one (1) related to Unity's and project sponsors' staff salaries, utility arrearages, participant, rental assistance, and data collection activities be noted as eligible programmatic costs. There were no funds charged that were ineligible, instead costs were misclassified as administrative costs and therefore paid out of the incorrect reporting category. The City will request that HUD allows an adjustment be made to the HPRP program budget for a reclassification of Administrative and Program costs in lieu of the repayment request. Providing the reclassification is granted, the City would fall within the maximum 5 percent administrative fee threshold. Thereby, the finding number (3) repayment request would not be applicable. The City is requesting that all findings related to the administrative fee threshold being exceed be removed.
- Comment 1**
- Comment 2** Issues with Unity's Recordkeeping
Due to the volume and nature of information that must be reviewed that City is not able to provide a response at this time. However, the City is working with Unity and HUD to resolve the aforementioned finding. Should the finding be deemed unresolvable, the City will seek repayment of funds from Unity to return to the U.S. Treasury.

Comment 3

Unreconciled Data in HMIS

The City has requested from both HUD and Unity access to HMIS, however this request has been denied. In addition to access being denied, it was also difficult for the City to obtain HMIS information from Unity and Unity's Project Sponsors. Without access to HMIS the City does not have the capacity to review or reconcile the participant data and financial records that are recorded within for Unity and its project sponsors. The City will work with Unity to ensure they are conducting this review of their HMIS system to correct the financial records for the program participants sampled. The City will also ensure that Unity and their project sponsors compare financial records with the HMIS data. These corrections are expected to be made by October 1, 2013.

Comment 4

Project Sponsors and Contractors Contract Amendments

The City previously provided the amended contracts for the selected sample to support budget revisions. The documents have been included (see Attachment I) for review.

The City of New Orleans would like to thank you for all the support provided throughout the audit process, moreover we note our continued sense of urgency to work with and beside HUD on all matters. If further information is required concerning the above corrective actions, please feel free to contact Natasha F. Muse, Director of Administrative Support at (504) 658-4208 or nfmuse@nola.gov.

Sincerely,

Cedric S. Grant
Deputy Mayor
Facilities, Infrastructure and Community Development

CSG/mdw

cc: Cheryl S. Breaux
Tracey Carney
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OIG Evaluation of Auditee Comments

Comment 1 The City requested that the finding concerning staff salaries, utility arrearages, participant rental assistance, and data collection costs that were charged to the administrative cost category and considered ineligible be revised and noted as eligible programmatic costs. The City asserted that the costs were not ineligible but misclassified and charged to the incorrect cost category. The City also asserted that it planned to request that HUD allow an adjustment be made to the City's Program budget to reclassify the administrative and Program costs in lieu of repaying the funds. The City stated that this reclassification would also amend the administrative costs total so that it would not exceed the 5 percent budget threshold and the repayment would not be needed. The City asked that we remove all findings related to the administrative costs threshold.

We disagree that the costs should be considered eligible. FR-5307-N-01 specifically stated that administrative costs do not include the costs of issuing financial assistance, housing relocation and stabilization services, or data collection activities, such as staff salaries and other operating costs; these costs should be included under the three other eligible activity categories. However, these costs were charged to and paid from the administrative cost category despite being an unallowable practice under the Program; and therefore must be repaid.

In addition, during the audit, we only evaluated the costs to determine whether they were eligible administrative costs. Thus, once determined unallowable administrative costs, we did not perform additional evaluations to determine their eligibility under another cost category. Based on the City's request, we revised the report to include additional clarification.

Further, FR-5307-N-01 states that no more than 5 percent of the total program grant may be spent on administrative costs. Although the City asserted that it would request and obtain approval from HUD to reclassify the funds in order to alleviate its administrative cost category overage, it did not provide a copy of the written request to HUD, or HUD's written approval, to support that the administrative total should be reduced below 5 percent. In addition, the City's Program ended July 31, 2012, and HUD closed this Recovery Act grant as of May 15, 2013.

Therefore, we did not revise our conclusions, the questioned costs, or recommendations 1A and 1C.

Comment 2 The City explained that due to the volume and nature of information that must be reviewed, it was unable to provide a response regarding Unity's recordkeeping. However, the City asserted that it was working with Unity and HUD to resolve the aforementioned finding. The City stated that it would seek repayment of funds from Unity to return to the U.S. Treasury for any unresolved findings. We appreciate the City's efforts in addressing the errors identified. The City should

work with HUD to resolve recommendations 1G and 1H pertaining to the reported conditions.

Comment 3 The City asserted that its request for access to HMIS had been denied and that without access to HMIS, the City did not have the capacity to review or reconcile the participant data and financial records that were recorded in HMIS for Unity and its project sponsors. However, the City proposed to work with Unity to ensure that it conducts reviews of its and the project sponsors' HMIS data in order to correct the financial records for the Program participants by October 1, 2013. We appreciate the City's efforts in addressing the reported conditions.

Comment 4 The City asserted that it previously provided the amended contracts to support budget revisions and provided the documents as an attachment to its comments. Due to its size, we did not include this documentation in the final report. While we agree that the City previously provided the applicable contracts in question, the documents did not support the overages paid to the project sponsors and contractor.

The City also provided documentation of budget revisions for the four project sponsors discussed in the draft report. Based upon our review of the budget revisions, we agree that the documentation related to project sponsor Total Community Action was sufficient to support the City's approval for the additional amounts paid under that contract. However, the budget revisions provided for the other three project sponsors did not support that the City approved the additional amounts paid under the contracts. Thus, we only amended the final report to remove the questioned costs for Total Community Action's, which resulted in a reduction of the questioned costs from \$151,519 to \$145,747 in table 3 and recommendation 1I. The City should work with HUD to resolve the remaining questioned costs in recommendation 1I.