Louisville-Jefferson County Metropolitan Government, Louisville, KY

Housing Opportunities for Persons With AIDS Program

Office of Audit, Region 4
Atlanta, GA

Audit Report Number: 2017-AT-1009
July 21, 2017

To: Roger A. Leonard, Director, Community and Planning Division, 4ID

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: Louisville Metro, Louisville, KY, Did Not Always Administer Its HOPWA Program in Accordance With HUD's and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Louisville-Jefferson County Metropolitan Government's Housing Opportunities for Persons With AIDS 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 8M, requires that OIG post its publicly available reports on the OIG website. 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 404-331-3369.

Audit Report Number: 2017-AT-1009
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Louisville Metro, Louisville, KY, Did Not Always Administer Its HOPWA Program in Accordance With HUD's and Its Own Requirements

Highlights

What We Audited and Why

We audited the Louisville-Jefferson County Metropolitan Government's Housing Opportunities for Persons With AIDS (HOPWA) program. We selected Louisville Metro for review based on a management referral from the U.S. Department of Housing and Urban Development's (HUD) Louisville, KY, Office of Community Planning and Development and in accordance with our annual audit plan. Our audit objective was to determine whether Louisville Metro administered its HOPWA program in accordance with HUD's and its own requirements.

What We Found

Louisville Metro did not always administer its HOPWA program in accordance with HUD's and its own requirements. Specifically, it did not always ensure that program disbursements to its project sponsors were adequately supported and appropriate. In addition, the executive director of one of Louisville Metro's subrecipients, AIDS Interfaith Ministries of Kentuckiana, Inc. (AIM), mismanaged its funds. These conditions occurred because Louisville Metro did not understand the program requirements and did not sufficiently monitor AIM's controls over cash management. As a result, program disbursements totaling more than $31,000 were not adequately supported, and disbursements totaling more than $14,000 were inappropriate under the program. In addition, AIM had ceased operations; therefore, it did not complete the administration of program funds allocated to it.

What We Recommend

We recommend that the Director of HUD's Louisville, KY, Office of Community Planning and Development require Louisville Metro to (1) support or reimburse its HOPWA program more than $45,000 for inadequately supported and inappropriate disbursements from non-Federal funds, (2) provide adequate training to its staff responsible for reviewing and approving expenditures to ensure compliance with HUD's and Louisville Metro's requirements, and (3) implement adequate procedures for conducting sufficient monitoring of its project sponsors' cash management.

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Background and Objective

The Housing Opportunities for Persons With AIDS (HOPWA) program is authorized under the AIDS Housing Opportunity Act, 42 U.S.C. (United States Code) 12901 et seq., Title 24, Part 574. Its primary focus is establishing stable housing, reducing the risk of homelessness, and improving access to healthcare and supportive services for persons living with HIV-AIDS and their families. Specifically, the HOPWA program provides tenant-based rental assistance; Short-Term Rent, Mortgage, and Utility (STRMU)[1] assistance; and supportive services for persons living with HIV-AIDS. Approximately 90 percent of the annual HOPWA appropriation is allocated for the formula program, and the remaining 10 percent is allocated to competitive programs. The U.S. Department of Housing and Urban Development (HUD) makes formula grants to eligible States and cities on behalf of their metropolitan areas for eligible activities. Nonprofit organizations are eligible to apply for projects of national significance but may also serve as a project sponsor to formula grantees.

Louisville is the largest city in the State of Kentucky and the county seat of Jefferson County. On January 6, 2003, the city and county merged to form Louisville-Jefferson County Metropolitan Government, which is governed by an elected mayor and the Metro Council, composed of 26 council members from each of the 26 council districts. Louisville Metro's Department of Community Services administered the HOPWA program for all of Louisville, KY, and southern Indiana areas in the metropolitan jurisdiction.

Between 2013 and 2016, Louisville Metro received more than $2.8 million in HOPWA formula funding, which it awarded to five local project sponsors. Project sponsors, according to 24 CFR (Code of Federal Regulations) 574.3, are any nonprofit organizations or government housing agencies that receive funds under a contract with the grantee to provide eligible housing and other supportive or administrative services. The five project sponsors were (1) AIDS Interfaith Ministries of Kentuckiana, Inc. (AIM), (2) House of Ruth, (3) Hoosier Hills AIDS Coalition, (4) Legal Aid Society, Inc., and (5) Volunteers of America of Kentucky (VOA).

We reviewed a sample of all five project sponsors' program disbursements and focused primarily on AIM's disbursements based on our initial results[2] and the audit referral from HUD's program management, which alleged mismanagement of HOPWA program funds by AIM. AIM was a nonprofit organization founded in 1990 to assist persons and their families living with HIV-AIDS by providing supportive services, such as emergency housing, case management, and nutritional support. AIM's daily operations were managed by the executive director, who reported to a nine-member board. AIM ceased operations in August 2016 due to the lack of operating funds.

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[1] STRMU is assistance provided under HOPWA to prevent the homelessness of the tenant or mortgagor of a dwelling.

[2] See Scope and Methodology section for details of our review.

Tables 1 and 2 summarize the HOPWA program funds received by Louisville Metro and funds awarded to AIM. Funding for other project sponsors ranged from $28,500 to $360,600 per year.

Table 1

Fiscal year	HOPWA funds awarded to Louisville Metro
10/01/12 – 09/30/13	$557,629
10/01/13 – 09/30/14	530,918
10/01/14 – 09/30/15	572,269
10/01/15 – 09/30/16	576,546
10/01/16 – 09/30/17	587,081
Total	**2,824,443**

Table 2

Fiscal year	HOPWA funds awarded to AIM
07/01/12 – 06/30/13	$35,100
07/01/13 – 06/30/14	33,300
07/01/14 – 06/30/15	64,710
07/01/15 – 06/30/16	52,440
07/01/16 – 06/30/17	35,000*
Total	**220,550**

*A grant agreement for fiscal year 2017 funding was not executed, but the funding was allocated for AIM to administer.

Our audit objective was to determine whether Louisville Metro administered its HOPWA program in accordance with HUD's and its own requirements.

Results of Audit

Finding: Louisville Metro Did Not Always Administer Its HOPWA Program in Accordance With HUD's and Its Own Requirements

Louisville Metro did not always administer its HOPWA program in accordance with HUD's and its own requirements. Specifically, it did not always ensure that program disbursements to its project sponsors were adequately supported and appropriate. In addition, the executive director of one of the Louisville Metro's subrecipients, AIDS Interfaith Ministries of Kentuckiana, Inc. (AIM), mismanaged its funds, which included HOPWA program funding. These conditions occurred because (1) Louisville Metro staff responsible for reviewing and approving the expenditures did not understand the program requirements and (2) Louisville Metro did not sufficiently monitor the project sponsor's controls over cash management. As a result, program disbursements totaling more than $31,000 were not adequately supported, and disbursements totaling more than $14,000 were inappropriate. In addition, AIM had ceased operations; therefore, it did not complete the administration of program funds allocated to it.

Program Expenditures Not Adequately Supported

We reviewed 79 expenditures to determine whether program disbursements were adequately supported. Details on the sample selection are included in the Scope and Methodology section of this report. Louisville Metro's policies and procedures for program payment requests state that all grants are reimbursed in accordance with Federal requirements at 2 CFR Part 200, which requires that all costs be supported. In addition, section V of Louisville Metro's grant agreement with the project sponsors states that Louisville Metro must pay the project sponsor on a reimbursement basis after the project sponsor provides a payment request with supporting documentation of the costs, such as payment receipts, payroll records, personnel activity reports, or other applicable records. However, 21 (27 percent) of the 79 expenditures reviewed were not adequately supported for two project sponsors. These expenditures included supportive services consisting of salaries, administrative costs, and emergency housing vouchers under Short-Term Rent, Mortgage, and Utilities (STRMU) assistance. For example, pay requests for salaries and administrative costs did not always include the required payroll records, such as the pay stubs, timesheets, or canceled checks, to support the disbursements. For STRMU costs, there was no support to confirm that the emergency housing voucher costs were incurred by AIM. For all three STRMU costs, the supporting documents included hotel reservations for clients as opposed to proof of payment for the hotel cost, which was required under Louisville Metro's policies.

Table 3 summarizes the inadequately supported costs by expense category and project sponsors.

Table 3

Expenses with inadequate documentation	Instances	Amount	AIM	VOA
Supportive services – salaries	9	$27,184	X	
Administrative	9	3,419	X	X
STRMU – emergency housing voucher	3	554	X	
Total	**21**	**31,157**	**N/A**	**N/A**

Inappropriate Program Expenditures

Louisville Metro did not ensure that disbursements were for appropriate program expenditures. We reviewed 79 expenditures to determine whether program disbursements were for appropriate expenditures. Based on our review, Louisville Metro disbursed funds to three project sponsors totaling more than $14,000 for 16 (20 percent) inappropriate expenditures. The inappropriate payments included payments for items not included in an approved budget and duplicate payments or overpayments. According to its policies and procedures for program payment requests, any payment request must follow the approved work program, budget, and grant agreement authorized and approved by Louisville Metro and its project sponsor. However, Louisville Metro disbursed $851 to a project sponsor for utilities that were not included in the project sponsor’s approved work program and budget under its administrative expenses. In addition, the remaining 15 expenditures included duplicate payments or overpayments totaling $13,166. Table 4 summarizes the inappropriate costs by expense category.

Table 4

Expense type	Instances	Unallowable amount	AIM	VOA	Legal Aid
STRMU – emergency housing voucher	6	$6,609	X		
Supportive services – salaries	7	6,191	X		X
Administrative	3	1,217	X	X	
Total	**16**	**14,017**	**N/A**	**N/A**	**N/A**

AIM’s Mismanagement of Cash

We reviewed AIM’s bank statements for the period January 2013 through October 2016 to determine whether there was a pattern of cash mismanagement. Based on our review, cash withdrawals, via ATM and checking account withdrawal slips, of more than $110,000 were made from AIM’s accounts, and AIM incurred more than $4,700 in fees and charges as summarized in table 5. The cash withdrawals ranged from $15 to $7,000 per transaction. In addition, the executive director wrote checks from his personal account to AIM, which “bounced.” According to AIM’s board meeting minutes, the executive director may have practiced “kiting,” which is described as depositing bad checks into an account and withdrawing or transferring funds before the checks bounce.

Table 5

Fees and charges between 2013 and 2016	Amount
Overdraft fees	$2,494
Returned item charges	1,224
Chargeback fees	1,008
Total	**4,726**

Although AIM, as a nonprofit entity, received funding from other sources, such as private donations or State funding, 71 percent of the total funds spent by AIM were HOPWA program funds. Specifically, during the period January 2013 to October 2016, AIM's total funding was more than $220,000, and nearly $157,000 (71 percent) of that was HOPWA program funds as shown in table 6.

Table 6

Transactions (January 2013 – October 2016)	Amount	Percentage
Total funding per bank statements	$220,615	100%
HUD HOPWA funding	- 156,983[3]	- 71%
Difference (funding from other sources)	**63,632**	**29%**

All of AIM's operations were handled by the executive director and two administrative support staff; however, only the executive director and four board members were authorized signatories for AIM's bank accounts and held bank cards issued in their names. While AIM's operations were overseen by its board, according to the board cochair, the executive director provided information to the board members that was contrary to the actual status of AIM's cash position. Beginning in July 2016, two of AIM's three accounts had a negative balance, and both of the accounts were closed by the bank in October 2016. The remaining account generally had monthly balances of less than $100 for calendar year 2016, and it was closed in November 2016. According to AIM's board cochair, although AIM seemed to historically struggle with limited resources, the inappropriate transactions by the executive director ultimately led the board to terminate its operations. AIM ceased operations in August 2016 and failed to complete the administration of $35,000 in HOPWA program funds allocated for its fiscal year 2017. In response, Louisville Metro reallocated $17,848 to two other project sponsors and carried forward the remaining $17,152 ($35,000 - $17,848) as funding available for the next fiscal year's awards. As a result, not all of AIM's clients received the care that they would have received if the program administration had continued and appropriately used the $35,000 allocated.

3 This represents the amount of HOPWA program funds received by AIM through pay requests during the audit scope. Due to differences in timing, this amount does not match the HOPWA program awarded amount listed in the Background and Objective section of this report.

Lack of Understanding of Program Requirements and Insufficient Monitoring

Louisville Metro did not always ensure that program disbursements were adequately supported and appropriate because it did not understand the program requirements. Specifically, the staff responsible for reviewing and approving the expenditures stated that they had not received HUD or other HOPWA program training. Also, the staff was hired between May and September of 2016, with the exception of the assistant director and executive director, who started in November and December 2015, respectively. The staff positions had been vacant between 7 and 11 months.

In addition, Louisville Metro did not sufficiently monitor AIM's controls over cash management. HUD's program requirements at 24 CFR 574.500(a) state that grantees are responsible for ensuring that (1) grants are administered in accordance with the program requirements and other applicable laws and (2) their respective project sponsors carry out activities in compliance with all applicable requirements. While, Louisville Metro conducted an onsite monitoring review of AIM annually, it did not sufficiently monitor AIM's controls over cash management.[4] Specifically, the monitoring checklist used by Louisville Metro asked for a review of project sponsors' cash disbursements, but this review included only HOPWA program funds and not AIM's overall cash management. According to the grant contract coordinator, the original bank statements and voided checks were reviewed during an onsite monitoring. None of the monitoring reviews related to our audit scope resulted in findings. However, a review of AIM's overall cash management, such as a review of its bank statements in their entirety, would have revealed inappropriate cash withdrawals and unwarranted fees and charges. The process used by Louisville Metro for AIM's monitoring was the same for its remaining four project sponsors. Lastly, HUD's HOPWA Grantee Oversight Resource Guide, updated August 2010, states in chapter 9 that grantees are ultimately responsible for their sponsors' administration of HOPWA funds.

Conclusion

Louisville Metro did not always administer its HOPWA program in accordance with HUD's and its own requirements. In addition, AIM's executive director mismanaged its funds. These conditions occurred because Louisville Metro's staff did not understand the program requirements and Louisville Metro's monitoring reviews were not sufficient. As a result, program disbursements totaling $31,157 were not adequately supported and disbursements totaling $14,017 were inappropriate under the program. In addition, AIM did not complete the administration of program funds allocated to it.

Recommendations

We recommend that the Director of HUD's Louisville, KY, Office of Community Planning and Development require Louisville Metro to

[4] HUD's HOPWA Grantee Oversight Resource Guide, updated August 2010, states in chapter 9 that adequate cash controls help ensure that all transactions are part of a traceable system of documentation. The project sponsor's disbursement of funds, except for petty cash, will be made with checks or electronic transfers. Further, the Resource Guide provides a list of common items of a system for controlling cash transactions, which include that policies are in place prohibiting the drawing of checks payable to "cash."

1A. Adequately support or reimburse its HOPWA program $31,157 from non-Federal funds for the inappropriate disbursements.

1B. Reimburse its HOPWA program $14,017 from non-Federal funds for the inappropriate disbursements.

1C. Provide adequate training to staff responsible for reviewing and approving the expenditures to ensure compliance with HUD's and Louisville Metro's requirements for the administration of the HOPWA program, including processing program disbursements and monitoring project sponsors' cash management.

1D. Implement adequate procedures for sufficiently monitoring its project sponsors' cash management.

Scope and Methodology

We performed our audit work between October 2016 and March 2017 at the Louisville Metro's office located at 701 West Ormsby Avenue, Suite 201, Louisville, KY, and at our office in Atlanta, GA. Our review covered the period January 2013 through October 2016, but we expanded the period as necessary.

To accomplish our objective, we

- Interviewed Louisville Metro personnel involved with the management of the HOPWA program and HUD officials.
- Reviewed relevant background information.
- Reviewed applicable HUD laws, regulations, and other HUD program requirements relevant to HOPWA funding.
- Reviewed Louisville Metro's consolidated annual performance and evaluation reports, policies, procedures, board minutes, and organizational charts.
- Reviewed the Louisville Metro's audited financial statements and Integrated Disbursement Information System[5] reports.
- Reviewed the approved grant agreement between Louisville Metro and HUD and approved agreements between Louisville Metro and its project sponsors.
- Reviewed the general ledger, invoices, payroll records, banks statements, and canceled checks to verify that the disbursements were supported and appropriate.

The universe consisted of 396 expenditures totaling more than $2 million for the period January 2013 through October 2016. We pulled a statistical sample of 65 expenditures and reviewed 14 expenditures totaling $90,841 for five project sponsors, including AIM, to determine whether program disbursements were adequately supported and appropriate. Based on our review, $19,170 was not adequately supported, and $2,475 was inappropriate for six expenditures. We determined that a review of the remaining sample was not required; however, in our review, all of AIM's expenditures had exceptions. In addition, the audit referral was based on alleged mismanagement of AIM's HOPWA program funds. Therefore, we reviewed 100 percent of AIM's HOPWA disbursements. Specifically, we reviewed 67 expenditures for AIM totaling $156,983. Since we did not complete the statistical sample review, the results of the review apply only to the specific items reviewed and cannot be projected to the universe of transactions. We determined Louisville Metro did not always administer its HOPWA program in accordance with HUD's and its own requirements based on exceptions noted with AIM's and two other project sponsors' program disbursements in our initial review.

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[5] The Integrated Disbursement Information System is a HUD system that is primarily used by grantees to access grant funds and report performance accomplishments for grant-funded activities.

To achieve our audit objective, we relied in part on computer-processed data. We used the data to select a sample of expenditures for review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

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(s). 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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

- Safeguarding of assets – Policies and procedures that management has implemented to reasonably prevent and promptly detect unauthorized acquisition, use, or disposition of assets and resources.

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:

- Louisville Metro did not always administer its HOPWA program in accordance with HUD's and its own requirements. Specifically, it did not always ensure that program disbursements were supported and appropriate and did not conduct a sufficient monitoring review (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/	Ineligible 2/
1A	$31,157	
1B		$14,017
Total	**31,157**	**14,017**

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

2/ 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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

DEPARTMENT OF COMMUNITY SERVICES
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

GENA L. REDMON
DIRECTOR

June 9, 2017

Nikita N. Irons
Regional Inspector General for Audit
Office of the Inspector General
US Department of Housing and Urban Development
75 Ted Turner Drive SW, Room 330
Atlanta, GA 30303

Dear Inspector Irons:

We have reviewed the audit report for the Louisville-Jefferson County Metropolitan Government's Housing Opportunities for Persons with AIDS Program (HOPWA) dated May 26, 2017. The purpose of this letter is to provide responses to the findings and recommendations in your audit report. Please refer to the attached document.

Thank you for your time and consideration. If you have any further questions, please contact me at gena.redmon@louisvilleky.gov or at (502) 574-6848.

Sincerely,

Gena L. Redmon

Gena L. Redmon
Director

Attachment A

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Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Attachment A

Recommendations from HUD OIG:

1A. Adequately support or reimburse its HOPWA program $31,157 from non-Federal funds for the inappropriate disbursements.

Comment 1

Response: A check will be issued. Please allow 30 to 45 days.

1B. Reimburse its HOPWA program $14,017 from non-Federal funds for the inappropriate disbursements.

Comment 2

Response: A check will be issued. Please allow 30 to 45 days.

1C. Provide adequate training to staff responsible for reviewing and approving the expenditures to ensure compliance with HUD's and Louisville Metro's requirements for the administration of the HOPWA program, including processing program disbursements and monitoring project sponsor's cash management.

Comment 3

Response: The Louisville Office of Resilience and Community Services understands the importance of having an adequate review of expenditures to ensure compliance. Current staff has completed the necessary training on processing subrecipient disbursements and monitoring cash management. Our standard operating procedures have been updated to reflect the implementation of proper review of documentation before payments are issued.

1D. Implement adequate procedures for sufficiently monitoring its project sponsor's cash management.

Comment 4

Response: Monitoring tools have been updated to ensure compliance with HUD's and Louisville Metro's requirements as it relates to sufficient internal controls.

OIG Evaluation of Auditee Comments

Comment 1 Louisville Metro agreed to reimburse its HOPWA program $31,157 for the inadequately supported disbursements.

Comment 2 Louisville Metro agreed to reimburse its HOPWA program $14,017 for the inappropriate disbursements.

Comment 3 Louisville Metro stated that (1) it understood the importance of having an adequate review of expenditures to ensure compliance, (2) its current staff had completed the necessary training on processing subrecipient disbursements and monitoring cash management, and (3) it updated its operating procedures. We acknowledge Louisville Metro's understanding and efforts to address the findings cited in this report. Louisville Metro should work with HUD to ensure that sufficient training was provided.

Comment 4 Louisville Metro stated that its monitoring tools have been updated to ensure compliance with HUD's and its requirements. We acknowledge Louisville Metro's actions to address the findings cited in this report. Louisville Metro should work with HUD to ensure that the updates to its monitoring tools are adequate.