



Issue Date March 15, 2012
------------------------------

Audit Report Number 2012-PH-1008
-------------------------------------

TO: John E. Tolbert, III, Director, Office of Community Planning and Development, Pittsburgh Field Office, 3ED

FROM: //signed//  
John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: Mountain CAP of WV, Inc., Buckhannon, WV, Did Not Administer Its Homelessness Prevention and Rapid Re-Housing Program in Accordance With Applicable Recovery Act and HUD Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited Mountain CAP of WV, Inc.'s administration of its Homelessness Prevention and Rapid Re-Housing Program funds. We selected Mountain CAP for audit because of a complaint alleging that controls over its disbursements were weak. Our objective was to determine whether Mountain CAP maintained proper financial management of and accountability for its program to ensure that it used the funds according to the American Recovery and Reinvestment Act of 2009 and applicable U.S. Department of Housing and Urban Development (HUD) requirements.

### **What We Found**

Mountain CAP did not maintain proper financial management of and accountability for its program. It did not

- Have a financial accounting system that adequately identified the source and application of funds;

- Compare budgeted amounts to actual expenditures incurred by category;
- Report deviations from budget and program plans and, when necessary, request approval for budget revisions; and
- Properly maintain source documentation to support its accounting records.

It also did not minimize the time it took to pay vendors.

### **What We Recommend**

We recommend that HUD require Mountain CAP to provide supporting documentation for program expenditures totaling \$711,676 or reimburse HUD from non-Federal funds for any amount that it cannot support. We also recommend that HUD require Mountain CAP to improve its financial management system and procedures to ensure that it complies with all applicable Federal financial standard guidelines.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

We provided a draft audit report to Mountain CAP on January 12, 2012, and discussed it with Mountain CAP at an exit conference on January 20, 2012. Mountain CAP provided written comments to the draft report on February 1, 2012. It disagreed with the conclusions and recommendations in the report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

## TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: Mountain CAP Did Not Maintain Proper Financial Management of and Accountability for Its Program Funds	5
Scope and Methodology	10
Internal Controls	12
Appendixes	
A. Schedule of Questioned Costs	13
B. Auditee Comments and OIG's Evaluation	14

## **BACKGROUND AND OBJECTIVE**

Mountain CAP of WV, Inc.,<sup>1</sup> is a not-for-profit corporation that was organized under the laws of the State of West Virginia in 1965. Its purpose is to receive, manage, invest, and disperse funds from Federal and State grants, public and private donations, and all other sources to promote the social and economic improvement of low-income families in rural communities in West Virginia. Mountain CAP is governed by a 12-member board of directors. The executive director is Kathy McMurray. Mountain CAP's main administrative office is located at 26 North Kanawha Street, Buckhannon, WV.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009, which included \$1.5 billion for a homelessness prevention fund. Funding for this program, called the Homelessness Prevention and Rapid Re-Housing Program, was distributed based on the formula used for the Emergency Shelter Grants program. The purpose of the program is to provide financial assistance and services to prevent individuals and families from becoming homeless and to help those who are experiencing homelessness to be quickly rehoused and stabilized. The funds provide for a variety of assistance, including (1) short-term or medium-term rental assistance; (2) housing relocations; and (3) stabilization services, including such activities as mediation, credit counseling, security or utility deposits, utility payments, moving cost assistance, and case management. On July 17, 2009, the State of West Virginia received \$8 million as a grantee to be used as needed in all areas of the State. The State of West Virginia Governor's Office of Economic Opportunity administers the program for the State. On September 21, 2009, Mountain CAP was awarded \$711,952 of these funds from the State as a subgrantee. The State provided funds to Mountain CAP on a reimbursement basis.

Program grantees and subgrantees are required to expend at least 60 percent of their grant funds within 2 years of the date that the U.S. Department of Housing and Urban Development (HUD) signed the grant agreement. They must expend 100 percent of the grant funds within 3 years from the date that HUD signed the grant agreement. For Mountain CAP, the deadline dates are July 17, 2011, and July 17, 2012, respectively. As of July 17, 2011, Mountain CAP had expended \$493,991 (69 percent) of its grant, and as of December 1, 2011, it had expended \$711,676 (nearly 100 percent) of its grant.

The objective of the audit was to determine whether Mountain CAP maintained proper financial management of and accountability for its program to ensure that it used the funds according to Recovery Act and applicable HUD requirements.

---

<sup>1</sup> In March 2000, the legal name of the entity was changed to "Mountain CAP of West Virginia, Inc., a CDC" (community development corporation).

## RESULTS OF AUDIT

### Finding: Mountain CAP Did Not Maintain Proper Financial Management of and Accountability for Its Program Funds

Mountain CAP did not maintain proper financial management of and accountability for its program. It did not (1) have a financial accounting system that adequately identified the source and application of funds; (2) compare budgeted amounts to actual expenditures incurred by category; (3) report deviations from budget and program plans and, when necessary, request approval for budget revisions; and (4) properly maintain source documentation to support its accounting records. It also did not minimize the time it took to pay vendors. These problems occurred because Mountain CAP lacked controls to ensure that it complied with requirements and needed to upgrade its accounting software. As a result, HUD had no assurance that the \$711,676 Mountain CAP expended was used for eligible activities that met the intent of the program.

#### **Mountain CAP Did Not Have Proper Financial Accountability for Grant Funds**

HUD regulations at 24 CFR (Code of Federal Regulations) 84.21 and 2 CFR 215.21(b) require grantees to (1) maintain complete and accurate records identifying the source and application of grant funds and a comparison of outlays with budget amounts for each award, and (2) ensure that grant expenditures are supported by source documentation to show that funds were used solely for authorized purposes. Mountain CAP did not have a financial accounting system that adequately identified the source and application of funds and compared the budgeted amounts to actual expenditures incurred by category as required. Although it provided a general ledger and a chart of accounts, it could not provide a program cash disbursements journal. Mountain CAP could only provide a register of all of the disbursements that it made from its central accounts payable bank account.<sup>2</sup> It could not reconcile expenses, by check number, back to its general ledger for the program. As a result, we could not reconcile payments to the assisted clients.

Based on our analysis of Mountain CAP's general ledger as of May 1, 2011, Mountain CAP exceeded its State-approved budget of \$313,500 for the financial assistance category of eligible activities by \$11,534. Mountain CAP submitted an amendment to the State on May 2, 2011, and the State approved it on May 15,

---

<sup>2</sup> Mountain CAP uses this bank account to pay expenses for the Homelessness Prevention and Rapid Re-Housing Program and other programs.

2011. However, the approval occurred after the costs were recorded in the general ledger. HUD regulations at 2 CFR 215.25(b) require recipients to report deviations from budget and program plans and request approval in advance. Moreover, although Mountain CAP's computer system had some budget capability, it was not activated. Therefore, Mountain CAP could not determine its obligated and unobligated Recovery Act program detailed budget balances.

Mountain CAP's records did not agree with client information it provided to the State. We were unable to reconcile Mountain CAP's client payment data to what it reported to the State because Mountain CAP could not provide a check register for the program nor could it relate vendor payments to the clients benefitting from the payment. As a result, there was no assurance that expenditures were eligible and supported. Mountain CAP staff stated that the accounting system needed to be updated and that the State had approved funding for new software, but the software was not implemented during the audit.

### **Funding Requests Were Not Signed or Supported Properly**

From December 2009 through September 2011, Mountain CAP submitted 71 funding requests to the State. However, 22, valued at \$113,859, of the 71, valued at \$585,568, were not signed by an authorized Mountain CAP official to certify that the costs claimed were correct and that supporting documentation was on file to verify the costs claimed. In August 2010, the State advised Mountain CAP that beginning with the August 2010 reimbursement request, the requests would need to be signed by either the executive director or another individual who had authorization to sign the requests. Mountain CAP complied with this direction from the State.

Mountain CAP did not always maintain documentation to support its funding requests. Of the 71 funding requests, 9 requests, totaling \$115,101, lacked supporting documentation. Examples of problems included lack of third-party documentation, such as leases, eviction notices, and utility bills, and staff labor costs did not show the number of hours worked.

### **Mountain CAP Did Not Pay Vendors in a Timely Manner as Required**

The State provided funds to Mountain CAP on a reimbursement basis. HUD regulations at 24 CFR 84.22 require subgrantees to minimize the time elapsing between the transfer of funds and their disbursement by the subgrantee. However, Mountain CAP did not pay vendors in a timely manner as required. It appeared

that Mountain CAP was using program funds as a short-term loan rather than releasing checks to pay expenses on behalf of program households. We reviewed 841 checks, valued at \$427,184, which cleared Mountain CAP's bank account during the 4-month period December 2009 through March 2010. Of those 841 checks, 234, valued at \$107,123, cleared the bank from 8 to 132 days<sup>3</sup> after the date on the checks. The following table provides details.

<b>Period</b>	<b>Dollars</b>	<b>Number of checks</b>
8 to 15 days	\$81,044	172
16 to 30 days	6,757	39
31 to 60 days	13,849	18
61 to 132 days	5,473	5
<b>Total</b>	<b>\$107,123</b>	<b>234</b>

We reviewed an additional 933 checks, valued at \$562,349, which cleared Mountain CAP's bank account during the 4-month period April 2011 through July 2011, to determine whether the condition was still occurring. Of those 933 checks, 567, valued at \$295,161, cleared the bank from 8 to 179 days after the date on the checks. The following table provides details.

<b>Period</b>	<b>Dollars</b>	<b>Number of checks</b>
8 to 15 days	\$188,401	359
16 to 30 days	72,366	127
31 to 60 days	34,005	72
61 to 179 days	389	9
<b>Total</b>	<b>\$295,161</b>	<b>567</b>

By comparison, on average, the time that it took for checks to clear the bank during the periods reviewed had increased from 31 to 35 days.

While Mountain CAP could not identify the checks drawn on its bank account that related specifically to the program, the extended periods between the dates on the checks and the dates on which those checks cleared the bank, as shown above, indicate that Mountain CAP did not release all checks immediately upon receipt of funds from the State. During our review of 6 client files (discussed below), we identified the landlords associated with these clients and used Mountain CAP's cash disbursement register and bank statements to review all of the payments to the landlords during the period that the clients received assistance, and determined that the checks issued to the landlords cleared the bank from 4 to 61 days after the date on the checks. Further, according to its 2010 audited financial statements, Mountain CAP was having problems with its working capital, and its working capital for its day-to-day operations was insufficient. Mountain CAP noted that it was difficult to pay vendors in a timely manner and landlords often threatened to evict clients if they were not paid immediately. It also appeared that the State

---

<sup>3</sup> We conservatively determined that 7 days was a reasonable period of time for issued checks to clear the bank.

contributed to this condition. Mountain CAP provided correspondence indicating that at times it took the State as much as 28 days to provide funds to Mountain CAP due to changes in payment processing at the State Auditor's Office.

### **Client Files Lacked Supporting Documentation**

We selected and reviewed six client files associated with \$28,519 in grant payments. The files did not include complete documentation as required by HUD's August 2011 eligibility determination and documentation guidance for the program. The files were somewhat disorganized, and they did not contain a schedule or listing that summarized or reconciled the accumulated charges for the client. We noted the following deficiencies:

- Six client files lacked third-party documentation to support income amounts. Although clients completed zero income certifications, some were not signed by Mountain CAP staff or lacked evidence to show that staff made reasonable attempts to verify income certified by the client.
- Six client files lacked evidence of lead-based paint visual assessments.
- Six client files lacked evidence that rent reasonableness determinations were made before financial assistance was provided to the client.
- Four client files did not contain evidence that clients recertified their eligibility every 3 months as required.
- In one client file, utility payments were not supported by the source documentation.

In February 2011, the State monitored Mountain CAP's program and reviewed 23 client files. The State determined that all 23 files were missing documentation or contained incomplete documentation. It noted that in some cases, it might not be possible to correct the issues.

### **Conclusion**

Mountain CAP could not demonstrate that it used \$711,676 in program funds for eligible activities that met the intent of the program. Although HUD regulations required Mountain CAP to adequately maintain records to demonstrate that expenditures were eligible and met the intent of the program, it did not (1) have a financial accounting system that adequately identified the source and application of funds; (2) compare budgeted amounts to actual expenditures incurred by category; (3) report deviations from budget and program plans and, when necessary, request approval for budget revisions; and (4) properly maintain source

documentation to support its accounting records. It also did not minimize the time it took to pay vendors. Therefore, HUD had no assurance that the \$711,676 that Mountain CAP spent met the intent of the program. By improving its financial management system and adequately supporting expenditures, Mountain CAP can ensure that future funds will be used for the purposes intended.

## **Recommendations**

We recommend that the Director of HUD's Pittsburgh Office of Community Planning and Development require Mountain CAP to

- 1A. Provide documentation to support its use of \$711,676 in program funds or reimburse its program from non-Federal funds for any amount that it cannot support.
- 1B. Improve its financial management system and procedures to ensure that it complies with all applicable Federal financial standard guidelines.

## SCOPE AND METHODOLOGY

We conducted our onsite work from August through October 2011 at Mountain CAP's office located at 26 North Kanawha Street, Buckhannon, WV. The audit covered the period September 2009 through July 2011 but was expanded when necessary to include other periods.

To accomplish our objective, we

- Relied in part on computer-processed data in Mountain CAP's database and the State of West Virginia Governor's Office of Economic Opportunity's database. We used Mountain CAP's computer-processed general ledger and cash disbursement data to quantify expenditures by date and compare the data to bank statements and determine the length of time it took for checks to clear the bank. We used the State's computer-processed data to identify program clients served and select a sample of client files to review, quantify assistance by client, compare expenditures by budget category, and reconcile expenditures to documentation maintained in the client files reviewed and Mountain CAP's general ledger. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.
- Obtained relevant background information.
- Reviewed the Recovery Act, Office of Management and Budget implementation guidance, and applicable HUD regulations and guidance.
- Interviewed relevant Mountain CAP staff and officials from HUD's Pittsburgh Office of Community Planning and Development and the State of West Virginia Governor's Office of Economic Opportunity.
- Reviewed six client files associated with payments totaling \$28,519. We selected these six files for review because they appeared to have received greater amounts of assistance or had a large number of payments made on behalf of the assisted household.
- Reviewed 71 funding requests that Mountain CAP submitted to State of West Virginia Governor's Office of Economic Opportunity from December 2009 through September 2011.
- Reviewed Mountain CAP's bank statements for the 4-month periods December 2009 through March 2010 and April 2011 through July 2011. We selected these periods because they represented the first four months after funds were first received and the latest four months at the time of our review.
- Reviewed Mountain CAP's policies, accounting procedures, grant agreements, bank statements, funding requests, general ledger, cash disbursements, data files, and program budgets and correspondence files.

- Reviewed the State of West Virginia Governor’s Office of Economic Opportunity’s policies, procedures, monitoring reports, and client data that it maintained in its homeless management information system, which is the primary tool for the collection of data on the use of funds awarded and persons served through the Homelessness Prevention and Rapid Re-Housing Program.
- Reviewed Mountain CAP’s fiscal years 2009 and 2010 audited financial statements.
- Reviewed minutes from the meetings of Mountain CAP’s board of directors.

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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

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:

- Mountain CAP did not ensure compliance with applicable regulations concerning record-keeping requirements, budget controls, and timely payment for goods and services to demonstrate that its activities met the program's objectives.

# APPENDIXES

## Appendix A

### SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$711,676

- 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.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

February 1, 2012

John P. Buck  
Regional Inspector General for Audit, Philadelphia Region, 3AGA  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
Wanamaker Building  
100 Penn Square East, Suite 10205  
Philadelphia, PA 19107-3380

**SUBJECT: RESULTS OF AUDIT: WE DO NOT AGREE WITH THE FINDING**

**We strongly disagree** with the assumption that Mountain CAP could not demonstrate that it used the \$711,676 in program activities that met the intent of the program.

#### **Comment 1**

The report does not contain sufficient evidence to support the finding. The report should include only information and conclusions that are adequately supported by sufficient evidence from working papers which an auditor compiles.

#### **Comment 2**

Moreover, Mountain CAP has not been provided sufficient time or specific audit documents needed to adequately respond to the finding. With respect to the audit, accuracy is important for fair and impartial reporting and to assure readers what is reported is reliable.

#### **Comment 3**

While Debra Braun may have a somewhat narrow view of what types of documentation are acceptable, we have sufficient documentation to justify reasonableness, allowability, and allocability of every charge that is made to an award. We offered any available alternative documentation that may justify a particular charge but it was not taken into consideration. On at least one occasion during the audit, Mountain CAP Finance Director, Donna Armentrout, asked to see what was being reviewed in order to prepare a full explanation or to provide additional documentation; she was told by Ms. Braun that the work papers could not be shared.

#### **Comment 4**

Mountain CAP is committed to strong financial management and processes and to accountability for all programs provided, including its Homeless Prevention and Rapid Re-Housing Program with applicable Recovery Act and HUD requirements.

A more specific response follows and we request that our full response be included in the report.

**Comment 4**

**The finding indicates that Mountain CAP did not have proper financial accountability for Grant funds.**  
Again, we strongly disagree; Mountain CAP recognizes the need to have proper financial accountability for Grant funds.

**Comment 3**

**Comment 5**

As stated within Finding 1, HUD regulations at 24 CFR (code of Federal Regulations) 84.21 and 2 CFR 215.21(b) require grantees to (1) maintain complete and accurate records identifying the source for each award and (2) ensure that grant expenditures are supported by source documentation to show that funds were used solely for authorized purposes. We would like to note that currently, there is no detailed guidance from the Federal government regarding the specific reports/journals/ledgers that the agency must generate. Each entity is responsible for developing its own accounting strategy, whether explicitly written or implied, and for ensuring that such a strategy meets the fundamental objectives as set forth by the Federal government. As discussed in the exit conference, Mountain CAP does have appropriate source documentation to support our accounting records and those were submitted to GOEO with every funding request. Mountain CAP did assign a unique set of General Ledger Account Codes that identified both source of funds and application (use) of funds. Moreover, the CPA firm who conducted the Single Audit A-133 never had a problem auditing our records. Mountain CAP recognizes that our cash disbursement journal or check register did not contain all of the components on one report that the auditor wanted to reconcile expenses, by check number, back to the general ledger; however the comparisons could be made by manually comparing each canceled check to the purchase order and attached voucher request for payment. We are unaware of any regulation that requires an accounting system that must be able to produce all data sets on one document.

**Comment 6**

For further consideration on “did not maintain proper financial management of and accountability...” please consider that when the WV Auditor’s office duplicated payment to Mountain CAP on two separate funding requests, it was Mountain CAP finance staff that caught the error and immediately notified GOEO.

**Comment 7**

Mountain CAP made every effort to follow HUD regulations at 2 CFR 215.25(b) that stated “ *Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.*”

It is important to note that when the original budget was submitted, neither Mountain CAP, nor any of the HPRP sub grantees knew exactly how many families would request assistance in each subcategory and thus the original budget amounts were a rough estimate. Therefore, in general, we did not change the budget, just updated it for better/correct reflection of our performance. Based on the pace of requests for services and the need for Mountain CAP to provide vouchers or “promises of payment” to vendors to avoid negative consequences to our clients, Mountain CAP requested a budget adjustment as quickly as was possible and had verbal approval to include those revisions on the funding request. Specifically, Mountain CAP submitted an HPRP budget revision with an effective date of April 18, 2011. Jennifer Fazzolari verbally approved the budget on May 02, 2011 and permitted Mountain CAP to utilize the new budget category amounts for the week ending April 24, 2011.

In regard to Budget Line A (Financial Assistance) on the April 18, 2011 budget revision, Jennifer Fazzolari directed Mountain CAP to update the “total request” column. For Budget Lines B and C, Mountain CAP opted to provide updated information for Year 1, Year 2, and Year 3 Columns; however, we were only required to update the Total Request Column.

**Comment 7**

Accordingly 2 CFR 215.25, within 30 calendar days from the date of receipt of the request for budget revisions, Federal awarding agencies shall review the request and notify the recipient whether the budget revisions have been approved. If the revision is still under consideration at the end of 30 calendar days, the Federal awarding agency shall inform the recipient in writing of the date when the recipient may expect the decision. Jennifer Fazzolari gave written approval on May 15, 2011 that is less than 30 calendar days.

**Comment 8  
Comment 7**

We strongly disagree that "Mountain CAP could not determine its obligated and unobligated Recovery Act program detailed budget balances." The Reimbursement Request Form, submitted with every funding request, tracks all of the following components: Approved Budget, Balance Before Request, Homeless Prevention Draw Down Request, Rapid Re-Housing Draw Down Request, Total Draw Down Request and Balance After Draw Down Request all of which are further clarified by category: A. Financial Assistance, B. Housing Relocation, C. Data Collection and Evaluation, D. Administrative Costs.

**Comment 9**

We strongly disagree with "...we compared the amount of funding Mountain CAP had received from the State as of April 24<sup>th</sup>, 2011, to its general ledger transactions as of the same date and found that Mountain CAP received \$606 more from the State than the total program expenses recoded in its general ledger for the program. The last payment Mountain CAP received before the 24<sup>th</sup> of April was on April 20<sup>th</sup>. The general ledger for that time period reflects expenses of \$372,724.25, or expenses greater than had been requested for reimbursement. In addition, the State reviewed all funding requests and supporting documentation, including copies of the general ledger, before issuing reimbursements. Please provide Mountain CAP with the work papers for this noted variance.

**Comment 10**

Also on Page 6, second paragraph, suggesting that Mountain CAP had not implemented funding for accounting system updates, it must be accurately noted that Mountain CAP was not awarded funding to 'purchase software updates', but rather had been awarded funds to purchase and implement a new Fund Accounting Program and was on schedule with purchase, training and expected implementation.

**1. Finding requests were not signed or supported properly.**

**Comment 11**

Mountain CAP strongly disagrees that funding requests were not signed or supported properly. Mountain CAP followed GOEO policy. Prior to September 2010, funding requests were not requested to be signed, only transmitted from the Executive Director's computer. As GOEO adjusted this matter within their policy, an email was sent from Jennifer Fazzolari to all HPRP sub grantee Executive Directors on August 16, 2010 stating that beginning with the August 2010 request (to be submitted in September), all HPRP reimbursement requests would have to be signed by the ED or authorized individual. Mountain CAP submitted weekly requests, but was also permitted to begin this process in September 2010. In other words, most of the agencies were submitting monthly requests and would be submitting their August 2010 request by Sept 7, 2010. By August 16th, Mountain CAP had already submitted requests for weeks ending 08/08/10 and 08/15/10 under the process that was previously in place. It is also important to note that beginning 08/29/2010 ALL Mountain CAP HPRP Reimbursement Requests were signed by an authorized HPRP official. Therefore, this issue was corrected before the beginning of the audit and designed to provide reasonable assurance that Federal funds are used for their intended and authorized purposes and in compliance with applicable laws and regulations.

**Comment 12**  
**Comment 2**

Without the detail of which 9 funding requests the auditor reviewed, Mountain CAP cannot adequately respond to the statement, “9 requests, totaling \$115,101, lacked supporting documentation.” For example, third party documentation, such as leases, was regularly attached *only* with the first funding request for a client. If the client was served multiple months, the lease was not required to be submitted over and over unless there had been a change. Please provide Mountain CAP with the work papers for this noted variance.

**Comment 13**

We strongly disagree that “staff labor costs did not show number of hours worked.” The Mountain CAP Payroll Department Report, included with the Reimbursement Requests, provide detail of employee name, the corresponding general ledger account code, the number of hours worked and the rate of pay.

**Comment 14**

**2. Mountain CAP did not pay vendors in a timely manner as required.**

Mountain CAP followed the reimbursement process approved by GOEO. Mountain CAP recognizes that payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance and redemption of checks, warrants, or payment by other means by the recipients. To minimize this time, checks were routinely written at the time that Mountain CAP prepared and submitted their invoices to GOEO. Therefore, the time between the date on Mountain CAP’s checks and Mountain CAP’s receipt of payment must be deducted from the assumed check-clearing time frames charted on page 7 of the Audit Report. Calendar days between request and payment are between 12 and 28 days depending on month of payment. Weekend and holiday time must also be taken into consideration. The majority of checks reviewed cleared the bank in 30 days or less. A careful analysis of the dates of reimbursement requests and the dates of actual payments to Mountain CAP shows that more than half of the payments took 20 days or more to reach Mountain CAP; 6 took between 35 and 48 days. It is unrealistic to make assumptions on aggregate data that may include checks from outside of this program. In addition, Mountain CAP has no control over when a vendor cashes their checks. The combined impact of these circumstances calls into question the relevance of the charts on page 7, and the damaging assumptions based on them.

**3. Client files lacked supporting documentation.**

This response is based on the assumption that the six client files reviewed were the following:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

**Comment 15**

Note: Although this information was submitted in response to the draft report, the actual client files reviewed were not confirmed. Also, the report does not indicate if the reviewer examined the Case Notes in the HMIS system to ensure that a complete client file was reviewed. We are unaware of any regulation that requires electronic case notes to be printed and placed in the paper file. For adequate analysis of a client file, both the paper and electronic information must be reviewed in aggregate.

**Comment 16**

Deficiency:

Six clients lacked third party documentation to support income amounts. Although clients completed zero income certifications, some were not signed by Mountain CAP staff or lacked evidence to show that staff made reasonable attempts to verify income certified by the client.

Response: HUD's guidance to HPRP sub grantees indicates that Applicant Self Declaration of income is acceptable when "Written Third Party" or "Oral Third Party" verification is not possible. There is no way to verify that a client has zero income. Source:

[http://hudhre.info/documents/HPRP\\_EligibilityWebcast\\_Slides.pdf](http://hudhre.info/documents/HPRP_EligibilityWebcast_Slides.pdf) - slide 37

Deficiency:

Six client files lacked evidence of lead- based paint visual assessments.

The HPRP Regulation pertaining to Lead-Based Paint visual assessments is the following:

*The Lead-Based Paint requirements are more stringent than the habitability standards, and they apply to all housing in which families assisted with HPRP funds will reside, whether they are assisted with homelessness prevention or rapid re-housing. Specifically, the regulations apply to the unit and to common areas servicing the unit when HPRP assistance is provided to a unit constructed before 1978 in which a child under the age of 6 will be residing, unless it meets one of the following criteria: a) it is a zero-bedroom or SRO-sized unit, b) it is housing for the elderly and there are no children under the age of 6, c) a lead-based paint inspection has been conducted in accordance with HUD regulations and found not to have lead-based paint, d) the property has had all lead-based paint identified and removed in accordance with HUD regulations or e) it meets any of the other exemptions described in 24 CFR part 35.115(a).*

**Comment 17  
Comment 15**

Clients 1 – 4 listed above did not have children under 6 living in their home and therefore their unit did not require a lead-based paint visual assessment. Clients 5 and 6 did have children residing in their home but the question remains, were the structures built before 1978? Without confirmation of the specific 6 files reviewed, Mountain CAP cannot properly research and respond.

Deficiency:

Six client files lacked evidence that rent reasonableness determinations were made before financial assistance was provided to the client.

Response: HUD Issued HPRP Regulation IV. A. 4. states the following:

*"The rental assistance paid cannot exceed the actual rental cost, which must be in compliance with HUD's standard of rent reasonableness. Rent reasonableness means that the total rent charged for a unit must be reasonable in relation to the rents being charged during the same time period for comparable units in the private unassisted market and must not be in excess of rents being charged by the owner during the same time period for comparable non-luxury unassisted units. To make this determination, the grantee or subgrantee should consider (a) the location, quality, size, type, and age of the unit; and (b) any amenities, housing services, maintenance and utilities provided by the owner."*

**Comment 18**

The regulation above does not require that rent reasonableness be documented utilizing a specific form that is placed in the client file.

Deficiency:

Four client files did not contain evidence that clients recertified their eligibility every 3 months as required.

HUD HPRP Regulation 1.A.a.1. states the following:

*“No program participant may receive more than 18 months of assistance under HPRP. After 3 months, if programs participants receiving short-term rental assistance need additional financial assistance to remain housed, they must be evaluated for eligibility to receive up to 15 additional months of medium-term rental assistance, for a total of 18 months. HUD is requiring grantees and subgrantees to certify eligibility at least once every 3 months for all program participants receiving medium-term rental assistance.”*

**Comment 19**

A review of the case notes saved in the DBA FACS Pro HMIS system demonstrated this deficiency is inaccurate for the following reasons:

- a. Some of the clients listed above did not receive medium-term rental assistance and thus did not have to be reassessed every 3 months. It is important to note that if a client only received utility payment assistance, this regulation did not apply.
- b. Client 5 – Intake September 2010  
Financial Services September 2010  
(did not receive additional financial services, therefore did not have to be reassessed)  
Discharged March 2011  
Re-enrolled April 2011  
Financial Services April 2011  
Discharged May 2011  
Re-enrolled July 2011  
Financial Services July 2011
- c. Client 1- Intake July 2010  
Client received five months of rental assistance from July 2010 to December 2010 but did not in October 2010. She was reassessed in October 2010 and January 2011.
- d. Client 2 Intake in September 2010 and reassessed in January, April and June of 2011
- e. Client 3 Intake in January 2010 and did not receive assistance until May 2010. She was reassessed in May and July 2010. She did not receive any additional assistance after August 2010 and then reapplied in March 2011.
- f. Client 4 Intake January 2011 and reassessed in April 2011 and July 2011
- g. Client 6 Intake December 2009 and financial services began in September 2010. She was reassessed in April 2011. This client did not meet the regulation in terms of being reassessed every three months.

**Comment 20**  
**Comment 2**

Deficiency

In one client file, utility payments were not supported by the source documentation. It would be helpful to identify this client to determine if the source documentation is in the files at WV GOEO.

**Comment 1**

**Conclusion**

**Mountain CAP strongly disagrees** that it could not demonstrate that it used \$711,676 in program funds for eligible activities that met the intent of the program. From our understanding, this report should include only information and conclusions that are adequately supported by sufficient evidence from working papers which an auditor compiles. Because a 100% audit was not completed, it is unwarranted to make generalized assumptions about the full award amount.

Sincerely,

Kathy J. McMurray  
Executive Director

## OIG Evaluation of Auditee Comments

- Comment 1** 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.
- Comment 2** We conducted our onsite work from August through October 2011 at Mountain CAP's office located at 26 North Kanawha Street, Buckhannon, WV. During that time, the auditor communicated with Mountain CAP's executive director and finance director at least 27 times and the State 10 times to discuss the audit and obtain feedback on the results. We considered all documentation and information provided to us during the audit.
- Comment 3** Since Mountain CAP claims that it can provide sufficient documentation to justify the reasonableness, allowability, and allocability of every charge that was made to the program, it needs to provide that documentation to the Pittsburgh Office of Community Planning and Development for review as part of the audit resolution process. In doing so, it will comply with our recommendation. We considered all documentation and information provided by Mountain CAP. The auditor recorded source documents, records of conversations, and analyses in the audit workpapers. In the particular instance identified, the auditor provided the finance director excerpts from two cash receipt logs that the finance director provided to the auditor earlier. The auditor asked the finance director to reconcile the cash receipts to expenses in the general ledger because the auditor compared the cash receipts log to the general ledger and determined that Mountain CAP received program funds in excess of the expenses recorded in the general ledger. The auditor identified the problem and the source document in the request to the finance director. Ultimately, through this reconciliation process, Mountain CAP determined that it erroneously credited \$49,827 to the Homelessness Prevention and Rapid Re-Housing Program in its cash receipts log and that it received two duplicate reimbursements from the State totaling \$3,960.
- Comment 4** We are encouraged that Mountain CAP recognizes the need for proper financial accountability over Homelessness Prevention and Rapid Re-Housing Program funds, however, our audit results show that controls were lacking during the audit period.
- Comment 5** Adequate source documentation was not provided during the audit to allow us to trace expenses recorded in Mountain CAP's general ledger back to the source documentation. As noted in the audit report, although Mountain CAP provided a general ledger and a chart of accounts, it could not create a cash disbursement register for the Homelessness Prevention and Rapid Re-Housing Program. In order to comply with the regulations, Mountain CAP's accounting system needs to be auditable from source documentation to general ledger and from general

ledger to source documentation. Since Mountain CAP could not provide an audit trail that allowed the auditor to trace transactions, the costs are unsupported.

In its guidance for the Homelessness Prevention and Rapid Re-Housing Program, HUD informed grantees and subgrantees that they must have in place: internal controls, accounting records, budget controls and financial reporting. It referred to the regulations at 24 CFR 85.20 and 84.21-28 for specific requirements for these financial management systems and specifically stated that the financial management system identifies the source and application of funds for federally-sponsored activities, including the verification that all costs are reasonable allowable, and allocable. It also informed grantees and subgrantees that they must have a system for tracking and comparing actual obligations and expenditures against the approved Homelessness Prevention and Rapid Re-Housing Program budget by activity category (financial assistance, housing relocation and stabilization, data collection and reporting, and administration). It also informed that it was critical that grantees and subgrantees maintain close watch over the progress achieved for the amount of funds expended, both to ensure the timely expenditure of funds, but also to stay within the allocated budget.

We noted that Mountain CAP's independent auditor incorrectly categorized the Homelessness Prevention and Rapid Re-Housing Program funds in the schedule of expenditures of Federal awards on its audited financial statements for the year ended March 31, 2010, as a program of the U.S. Department of Energy. Moreover, the independent auditor's management letter to Mountain CAP's board of directors addressed internal control issues including payments for payroll taxes that were not always made timely and late payment of employee benefits amounting to several thousand dollars. The independent auditor also noted that the size of the accounting and administrative staff precluded certain internal controls that would be preferred if the office staff were large enough to provide the optimum segregation of duties, and that the situation dictated that the board of directors remain involved in the financial affairs of the organization to provide oversight and independent review functions.

**Comment 6** Mountain CAP's accountant identified the overpayments on September 15, 2011, while reviewing cash deposits. However, this event occurred during the audit and after the auditor requested Mountain CAP's finance director to provide a cash receipts log for the Homelessness Prevention and Rapid Re-Housing Program on August 16, 2011. The auditor requested the log to facilitate reconciling program expenses recorded in the general ledger to the amounts Mountain CAP requested in its reimbursement requests to the cash received from the State for the program.

**Comment 7** As noted in the audit report, based on our analysis of Mountain CAP's general ledger as of May 1, 2011, Mountain CAP exceeded its State-approved budget of \$313,500 for the financial assistance category of eligible activities by \$11,534. Mountain CAP submitted an amendment to the State on May 2, 2011, and the State approved it on May 15, 2011. However, the approval occurred after the

costs were recorded in the general ledger. HUD regulations at 2 CFR 215.25(b) require recipients to report deviations from budget and program plans and request approval in advance. Moreover, although Mountain CAP's computer system had some budget capability, it was not activated.

**Comment 8** As stated in the audit report, Mountain CAP's computer system had budget capability but it was not activated. Mountain CAP staff stated that the accounting system needed to be updated and that the State had approved funding for new software, but the software was not implemented during the audit. The balances reported on the reimbursement request form reflected expenses already incurred since they were recorded in the general ledger. The reimbursement request form is not intended to be a tool for tracking obligations. The purpose of the form is to request reimbursement for expenses. The form shows the approved budget, the balance of grant funds before the current draw down request, the total dollar value of the current draw down request, and the balance of grant funds after subtracting the dollar value of the current draw down request. Mountain CAP continued to incur costs even as it was processing its reimbursement requests. In its guidance for the Homelessness Prevention and Rapid Re-Housing Program, HUD made it a point to inform grantees and subgrantees that they needed to monitor obligations and expenditures against the approved budget for program activities. Moreover, Mountain CAP could not produce a check register for Homelessness Prevention and Rapid Re-Housing Program expenses.

**Comment 9** Based on the response and a subsequent review of our audit workpapers we have removed this statement from the audit report.

**Comment 10** We revised the wording in the report. The State had approved funding for new software, but the software was not implemented during the audit.

**Comment 11** We disagree that Mountain CAP was following the State of West Virginia Governor's Office of Economic Opportunity's policy. The State's reimbursement request form included a section for the local officer to sign and date the reimbursement request. By doing so, the officer certified that costs claimed by the report were correct and just and based upon actual requirements; that the work and services were in accordance with the approved project agreement; and that the work and services were satisfactory and consistent with the amounts claimed. It further certified that supporting documentation was on file to verify the costs claimed and was available for inspection and that it was not involved in any court litigation law suit involving and applicable laws contained in the grant contract. Further, the State's desktop monitoring procedures for reimbursement requests, effective September 30, 2009, state that the reimbursement requests should be signed by the executive director or an employee authorized by the executive director. Mountain CAP provided no documentation to demonstrate that the State implemented the minimal requirement that reimbursement requests needed only to be transmitted from the executive director's computer. The Recovery Act

required unprecedented levels of accountability and transparency in government spending.

**Comment 12** We provided results to Mountain CAP during the audit. Mountain CAP admits that reimbursement requests did not always have complete supporting documentation. This acknowledgement verifies our conclusion that we could not rely on the reimbursement requests as an alternative method for tracing expenditures back to the general ledger and source documentation in the client files.

**Comment 13** In its guidance for the Homelessness Prevention and Rapid Re-Housing Program, HUD informed grantees and subgrantees that salaries and wages need to be supported by documentation such as job descriptions and time sheets that reflect after-the-fact determination of actual activity of each employee, account for the employee's total time in hours, and are signed by the employee and approved by a supervisor. In addition, for employees that work only on the Homelessness Prevention and Rapid Re-Housing Program, the employee must certify at least semi-annually that they only worked on this program for that time period. Mountain CAP provided none of this documentation during the audit. Further, the payroll department reports attached to the reimbursement requests included the names of two employees that were not identified by Mountain CAP as staff that were assigned to work on its Homelessness Prevention and Rapid Re-Housing Program. We noted that the payroll department reports did not identify the payroll date or the dates for which the employees were being compensated. Moreover, we noted 14 instances in which Mountain CAP appears to have charged the program an unreasonable hourly rate of pay (\$160 and \$142) for two employees on reimbursement requests.

**Comment 14** Mountain CAP was on a reimbursement basis. Under the cost reimbursement method of funding, the grantee or subgrantee is required to finance its operations with its own working capital with payments being made to reimburse the grantee or subgrantee for actual cash disbursements supported by adequate documentation. As stated in the audit report, Mountain CAP was having problems with its working capital, and its working capital for its day-to day operations was insufficient. Mountain CAP noted that it was difficult to pay vendors in a timely manner and landlords often threatened to evict clients if they were not paid immediately. Also, as stated in the audit report, during our review of 6 client files, we identified the landlords associated with these clients and used Mountain CAP's cash disbursement register and bank statements to review all of the payments to the landlords during the period that the clients received assistance, and determined that the checks issued to the landlords cleared the bank from 4 to 61 days after the date on the checks. We would have evaluated only checks drawn against the Homelessness Prevention and Rapid Re-Housing Program, but Mountain CAP could not produce a cash disbursement register for the program. We conservatively determined that 7 days was a reasonable period of time for issued checks to clear the bank.

**Comment 15** We requested the case files that we reviewed from the executive director. We discussed the file deficiencies with the executive director. We asked Mountain CAP for all of the information supporting these files. No reference was made to notes in the electronic system. The client files did not contain any notations to inform a reviewer that source documentation or information was stored electronically or elsewhere. The case notes in the client files were insufficient for the auditor to trace the history of the client. Further, Mountain CAP did not grant the auditor direct read-only access to its computer system as requested. The staff could not produce a complete client report from the computer system because of employee turnover. The newly hired employees were not yet trained to use the system.

**Comment 16** Section 5 of HUD's Homelessness Prevention and Rapid Re-Housing Program Eligibility Determination and Documentation Guidance, dated March 17, 2010, states that HUD allows various types of documentation, ranging from third party verification to applicant self-declaration. General documentation standards, *in order of preference*, are as follows: written third party verification, oral third party verification, and applicant self-declaration. Oral third party verification is acceptable only if written third party verification cannot be obtained. Staff must document reasons why third party written verification could not be obtained in the participant file. An affidavit of income and housing status as reported by the household is allowable, but it's only acceptable if written or verbal third party verification cannot be obtained. Staff must document reasons why third party written or oral verification could not be obtained in the participant file. The documentation standards in the program guidance addressing instances when no income is reported require the employee to document attempts to obtain written or oral third party verification and sign the self-declaration. As stated in the audit report, our review of six client files showed that zero income certifications were not always signed by Mountain CAP staff or the files lacked evidence to show that staff made reasonable attempts to verify income certified by the client.

**Comment 17** HUD's presentation on Homelessness Prevention and Rapid Re-Housing Program Inspection Requirements, regarding lead-based paint requirements, states that every case file must include (1) documentation that the unit was exempt; or (2) the unit was not exempt, but a visual assessment was conducted and no problems were identified; or (3) the unit was not exempt, a visual assessment was conducted, problems were identified, but they were repaired in accordance with HUD regulations. As stated in the audit report, our review of six client files showed that the files lacked documentation to demonstrate that visual assessments were made or that the unit was exempt.

**Comment 18** As stated in the audit report, our review of six client files showed that the files lacked documentation to demonstrate that rent reasonableness determinations were made before financial assistance was provided to the client. Determining and documenting rent reasonableness is required under the Homelessness Prevention and Rapid Re-Housing Program. Mountain CAP provided no

documentation to demonstrate how rent reasonableness determinations were completed. There was no documentation in the client files to demonstrate a rent reasonableness review was performed or where the documentation was kept if not in the client file. HUD's program tips and updates guidance for case workers, housing specialists, their supervisors, and grantee or subgrantee program managers states that, for monitoring purposes, HUD will look to see that the grantee/subgrantee developed and followed a process to determine and document that the rent was reasonable and that the basis for the conclusion reached is supported by the evidence gathered. The documentation in the case files should contain the most complete documentation possible, and should outline staff steps, analysis, and conclusions so that an auditor or supervisor can understand the factors that contributed to the determination.

**Comment 19** HUD requires grantees and/or subgrantees to evaluate and certify the eligibility of program participants at entrance into the program and at least once every 3 months for all households receiving medium-term rental assistance or other services lasting longer than 3 months. In situations where there is a break in assistance (e.g., the client receives 2 months of assistance, exits the program, and later re-applies for assistance), the household must be re-evaluated as if they were going through an initial consultation regardless of how many months of assistance were initially provided. As stated in the audit report, four client files did not contain evidence to demonstrate that clients recertified their eligibility every 3 months as required. The case notes in the client files were insufficient for the auditor to trace the case history of the client. Mountain CAP did not grant the auditor direct read-only access to its computer system as requested and it made no reference to notes in the electronic system. Also, in its response, Mountain CAP agreed that it did not comply with the reassessment requirement for client 6.

**Comment 20** As part of the normal audit resolution process, we will identify the client to the Pittsburgh Office of Community Planning and Development for follow-up.