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TO: Roger Leonard, Director, Office of Community Planning and Development,
Louisville, KY, 4ID

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FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: Louisville-Jefferson County Metropolitan Government Generally Complied
With Recovery Act Requirements for Its Homelessness Prevention and Rapid
Re-Housing and Community Development Block Grant-Recovery Programs

HIGHLIGHTS

What We Audited and Why

We reviewed the Louisville-Jefferson County Metropolitan Government's administration of its Homelessness Prevention and Rapid Re-Housing Program (HPRP) and Community Development Block Grant-Recovery (CDBG-R) program. We selected Louisville Metro for review because it received the largest grants in Kentucky with the exception of the State of Kentucky, and the U.S. Department of Housing and Urban Development (HUD) had not conducted monitoring of either grant.

Our objective was to determine whether Louisville Metro administered its HPRP and CDBG-R grants in compliance with the requirements of the American Recovery and Reinvestment Act of 2009 and other applicable requirements. Specifically, our objectives were to determine whether Louisville Metro had adequate policies and procedures in place to ensure that (1) program participants were eligible, (2) program expenditures were supported with adequate documentation, (3) program reporting requirements were met, and (4) subgrantees were monitored and trained.

What We Found

Louisville Metro generally complied with Recovery Act requirements for its HPRP and CDBG-R grants. Specifically, its policies and procedures established adequate controls to ensure that (1) funds were expended on eligible participants and projects, (2) grant expenditures were supported, (3) Recovery Act results were reported accurately and in a timely manner, and (4) subgrantees were monitored and trained.

What We Recommend

This report does not contain recommendations as it contains no findings.

Auditee's Response

We provided a draft report to Louisville Metro and HUD on July 22, 2011. Louisville Metro agreed with the audit report and chose not to have an exit conference or provide a written response.

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BACKGROUND AND OBJECTIVES

The American Recovery and Reinvestment Act became Public Law 111-5 on February 17, 2009. It established the Homelessness Prevention and Rapid Re-Housing Program (HPRP) and the Community Development Block Grant-Recovery (CDBG-R) program. These programs are regulated by the U.S. Department of Housing and Urban Development (HUD) and administered by HUD's Office of Community Planning and Development.

The purpose of HPRP is to provide homelessness prevention assistance to households that would otherwise become homeless and to provide assistance to rapidly re-house persons who are homeless as defined by Section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). The program provides temporary financial assistance and housing relocation and stabilization services to individuals and families that are homeless or would be homeless but for this assistance.

The purpose of the CDBG-R program is to assist States, local governments, and insular areas in funding a wide range of community development activities eligible under Section 105 of the Housing and Community Development Act of 1974. The expected benefits of CDBG-R are to stabilize property values and prevent neighborhood blight. In addition, it is intended to meet the Recovery Act's goal of creating and preserving jobs. CDBG-R funds provide financing for infrastructure activities, housing activities, economic development activities, public service activities, real property acquisition, and administrative costs.

Louisville-Jefferson County Metropolitan Government was formed on January 6, 2003, when the Jefferson County Fiscal Court and the City of Louisville governments merged and formed the new entity. Louisville Metro is a public body corporate and politic, duly created and existing as a political subdivision of the Commonwealth of Kentucky under the constitution and laws of the Commonwealth. Louisville Metro is governed by an elected mayor and the Metro Council, composed of 26 council members from each of the 26 council districts. HUD awarded Louisville Metro \$4.8 million in HPRP funds and \$3.1 million in CDBG-R funds.

Our objective was to determine whether Louisville Metro administered the HPRP and CDBG-R grants in compliance with the requirements of the Recovery Act and other applicable requirements. Specifically, our objectives were to determine whether Louisville Metro had adequate policies and procedures in place to ensure that (1) program participants were eligible, (2) program expenditures were supported with adequate documentation, (3) program reporting requirements were met, and (4) subgrantees were monitored and trained.

RESULTS OF AUDIT

Louisville Metro Generally Properly Administered Its HPRP and CDBG-R Programs

Louisville Metro generally complied with Recovery Act and other requirements for its HPRP and CDBG-R grants. Its policies and procedures established adequate controls to ensure that (1) funds were expended on eligible participants and projects, (2) grant expenditures were supported, (3) Recovery Act results were reported accurately and in a timely manner, and (4) subgrantees were monitored and trained.

Louisville Metro Expended Funds for Eligible Activities

Louisville Metro expended its HPRP and CDBG-R funding for eligible activities. It provided HPRP funds to assist participants with rent and utility payments and to five subgrantees for housing stabilization, relocation, and grant administration services. It used the CDBG-R funds for a loan guarantee and a forgivable loan to develop a grocery store in an underserved area.

In addition to using HPRP funds for eligible activities, Louisville Metro ensured that the participants were eligible. It restricted HPRP funding to persons who were homeless or at risk of becoming homeless and who met other criteria. We reviewed 14 participant files out of a universe of 1,266 and found that Louisville Metro had adequately documented the eligibility of 13 participants. It had identified the remaining participant as ineligible during a self-assessment performed during 2010 and repaid \$197,689 from its general funds for this ineligible participant and others.

We also reviewed three (valued at \$147,334) of Louisville Metro's 19 (valued at more than \$2.8 million) HPRP reimbursement requests submitted to HUD to further evaluate whether funds had been spent on eligible activities. The reimbursements were mostly for housing stabilization, relocation, and grant administration expenses for Louisville Metro and the five subgrantees assisting with the grant. All of the reimbursed expenses were for eligible grant activities.

We evaluated the sole use of the CDBG-R funds to develop a grocery store in an underserved area and found this to be an eligible use. Guidance in 24 CFR (Code of Federal Regulations) 570.203 allowed Louisville Metro to use the CDBG-R funding as a loan guarantee for a bridge loan while the grocery store developer secured a New Market Tax Credit deal. Once the New Market Tax Credit deal closed, Louisville

Metro used the CDBG-R funds as an allowable forgivable loan to the developer.

Expenditures Were Properly Supported

Louisville Metro maintained adequate support for the HPRP and CDBG-R funds it spent. Guidance in 24 CFR 85.20 required that Louisville Metro support its accounting records with source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, or contract and subgrant award documents. While reviewing the three reimbursement requests for eligibility, we also evaluated the adequacy of the supporting documents. The expenses were adequately supported by payroll records, subgrantee contracts, and invoices. We also evaluated the single draw of \$3.1 million for the entire CDBG-R grant and found that it was adequately supported by loan documents and development agreements.

Louisville Metro Reported Its Accomplishments in a Timely Manner

Louisville Metro properly submitted quarterly reports that detailed its accomplishments for job preservation, creation, and investment in infrastructure for both the HPRP and CDBG-R grants. The Recovery Act required that all grant recipients report on their activities, job creation, and job retention. As of the March 2011 quarter, Louisville Metro had reported that the HPRP grant was more than 50 percent complete and had created 10.2 jobs. We reviewed payroll records and timesheets and determined that the 10.2 jobs created were supported. The CDBG-R grant was properly reported as less than 50 percent complete with zero jobs created since construction on the project had not started.

Subgrantees Were Properly Monitored and Trained

Louisville Metro properly monitored and trained its five HPRP subgrantees. There were no subgrantees for the CDBG-R grant. Louisville Metro maintained a grants compliance office for monitoring subgrantee activities. It had also provided appropriate training to subgrantees and its own staff.

Conclusion

We reviewed Louisville Metro's administration of its HPRP and CDBG-R grants and found that it generally complied with Recovery Act and other grant administration requirements. Louisville Metro had established adequate policies and procedures and had ensured that the grant funds were properly expended and accounted for.

SCOPE AND METHODOLOGY

Our objective was to determine whether Louisville Metro administered the HPRP and CDBG-R grants in compliance with the requirements of the Recovery Act and other applicable requirements. Specifically, our objectives were to determine whether Louisville Metro had adequate policies and procedures in place to ensure that (1) program participants were eligible, (2) program expenditures were supported with adequate documentation, (3) program reporting requirements were met, and (4) subgrantees were monitored and trained.

To accomplish our objectives, we reviewed

- The Recovery Act; Financial and Community Development Block Grant regulations at 24 CFR 85.20, 570.203, and 570.208; notices of requirements for HPRP and CDBG-R; Office of Management and Budget Memorandum M-10-08; and HUD's Louisville Office of Community Planning and Development's correspondence and files pertaining to Louisville Metro.
- Louisville Metro's reimbursements through HUD's Line of Credit Control System for the HPRP and CDBG-R grants, agreements with HPRP subgrantees, HPRP monitoring reviews, HPRP participant files, planned uses and documentation pertaining to the CDBG-R grant, accounting policies, accounting records, procedures manuals, staffing assignments, and organizational charts applicable to our objective.

We also interviewed Louisville Metro staff and HUD staff responsible for oversight of the HPRP and CDBG-R grants and Louisville Metro's grant administration. We selected nonstatistical random samples of 14 HPRP participant files from a universe of 1,266 and 3 reimbursement requests for HPRP expenditures from a universe of 19. The results from these samples pertain only to the items sampled and were not projected to the universes as a whole.

All electronic data relied upon during the review were tested during the performance of the various review steps. We conducted tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objectives. The tests included but were not limited to comparisons of computer-processed data to invoices and other supporting documentation. We found the electronic data to be reliable.

We performed onsite audit work from April 26 through May 27, 2011, at the Louisville Metro Department of Housing and Family Services office located at 810 Barret Avenue, Louisville, KY. The review covered the period May 2009 through March 2011 and was expanded as determined necessary.

We conducted the review 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 objectives:

- Controls over compliance with laws and regulations.
- Controls over reliability of financial reporting.

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 Deficiencies

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.