



## Department of Development

# Homelessness Prevention and Rapid Re-Housing ARRA Program Audit

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**Audit Period: July 1, 2010 to October 31, 2010**



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## Executive Summary

### Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include the following statement of purposes:

- To preserve and create jobs and promote economic recovery.
- To assist those most impacted by the recession.
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio has applied for over 90 ARRA programs with expected total grant awards to exceed \$8 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- Countercyclical Funds: The two largest components of the State's budget that is exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.
- Appropriated Funds: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.
- Safety Net Funds: These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.
- Economic Growth Funds: These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Department of Development (DEV) has applied for approximately 19 awards. This audit will focus on the Homelessness Prevention and Rapid Re-Housing (HPRP) ARRA Program (CFDA<sup>1</sup> 14.257). The HPRP program is a formula grant awarded to states, metropolitan cities, and urban counties by the U.S. Department of Housing and Urban Development to provide financial and other assistance to prevent individuals and families from becoming homeless and help those who are homeless to be quickly re-housed and stabilized. As of September 30,



2010, DEV had expended \$9,063,920 of the \$26,205,724 available for this program, and reported approximately 90 jobs were created or retained with the program funds.

During the audit, OIA identified opportunities for DEV to strengthen internal controls and improve business operations. A summary, along with detailed observations, has been provided. OIA would like to thank DEV staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

<sup>1</sup> Catalog of Federal Domestic Assistance



## Scope and Objectives

OIA staff was engaged to perform assurance work related to the HPRP ARRA Program. This work was completed between August 17, 2010 and November 19, 2010. The scope of this audit included the following areas:

- Program planning
  - Program risk assessment; and
  - Internal control process documentation
- Application process
  - Public award announcement; and
  - Applicant evaluation and award notification
- Program administration and monitoring
  - Communication of grant requirements; and
  - Program oversight and monitoring
- Reporting
  - Financial reporting; and
  - Non-financial statistical reporting

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management’s internal controls.

Objective	Conclusion <sup>2</sup>
Evaluate the adequacy of DEV’s ARRA program risk assessment and internal control documentation based on guidance provided by State management.	Well-Controlled
Evaluate the adequacy of the awarding process for ARRA funds to subrecipients and vendors.	Well-Controlled
Evaluate the design and adequacy of communication related to program requirements, state guidance, and federal compliance requirements to grant recipients.	Well-Controlled
Evaluate the design and effectiveness of controls over the timeliness, accuracy, and completeness of ARRA disbursements.	Well-Controlled



Objective	Conclusion <sup>2</sup>
Evaluate the design and effectiveness of the controls over subrecipient and vendor monitoring process for the program.	Improvements Needed – See Observation 1
Evaluate the design and effectiveness of controls over complete, accurate, and timely reporting of financial and non-financial information.	Well-Controlled with Improvements Needed

<sup>2</sup> Refer to [Appendix A](#) for classification of audit objective conclusions.



## Summary of Observations

The Summary of Observations includes only those risks which were deemed high or moderate. Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.

No.	Observation	Risk <sup>3</sup>
1.	<b>Fiscal Monitoring</b> – DEV has developed a draft monitoring tool to be used when performing the on-site reviews. The draft monitoring tool does not appear to include procedures to reconcile subgrantee cash requests to supporting documentation to ensure the expenses are allowable. Additionally, DEV is not able to determine if subgrantees have expended the advanced funds requested in accordance with the 15-day cash management requirement.	<b>Moderate</b>

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

<sup>3</sup> Refer to [Appendix A](#) for classification of audit observations.



## Detailed Observations and Recommendations

### Observation 1 – Fiscal Monitoring

OMB Circular A-133, Subpart D, requires the department to monitor the activities of subrecipients to reasonably ensure that laws, grant agreements, and performance goals are achieved. Additionally, DEV signed an assurance statement indicating a risk-based subrecipient monitoring process would be in place to ensure achievement of the ARRA program and economic outcomes.

DEV is responsible for monitoring the use of the grant funds for funded ARRA Homelessness Prevention and Rapid re-Housing program subgrantees. DEV developed a draft monitoring tool to be used when performing the on-site reviews. The draft monitoring tool does not appear to include procedures to reconcile subgrantee cash requests to supporting documentation to ensure the expenses are allowable. Additionally, DEV is not able to determine if subgrantees have expended the advanced funds requested in accordance with the 15-day cash management requirement.

While DEV performs technical monitoring procedures, they do not appear to take into consideration fiscal monitoring. Inadequate or ineffective review of subgrantee expenditures increases the risk of undetected fraud, waste, and abuse; unallowable use of funds; noncompliance with contract, or state/federal regulations, or not achieving program objectives.

#### Recommendation

Evaluate the current monitoring process and consider implementing additional procedures that would provide reasonable assurance that disbursements recorded do not include unallowable costs and support the monthly fund requests. Additionally, DEV should consider revising the periodic draw request form utilized by subgrantees to reflect the monthly cash-on-hand balance.

#### Management Response

The Office of Housing and Community Partnerships (OHCP) staff currently conducts cash disbursement testing through monitoring procedures over the ARRA Homelessness Prevention and Rapid Re-Housing Program (HPRP). To better monitor the cash balances of the HPRP award recipients, on or before February 28, 2011, OHCP will revise the current HPRP monitoring tool used to conduct on-site monitoring reviews to include a question asking the grantees what their current HPRP cash balance is.

The additional question, along with the results of the monitoring visit, will enable OHCP to better analyze the risk factor of each HPRP award recipient; thereby enabling OHCP to develop a prioritized fiscal monitoring schedule for the 54 HPRP award recipients, with those award recipients with a higher risk being monitored first. By August 31, 2012, OHCP will conduct a



fiscal monitoring of each of the 54 HPRP award recipients, which will perform detailed testing of expenditures to provide OHCP reasonable assurance that grantee expenditures are: allowable and for eligible activities, ties back to reporting, and grantee draws are expended within the 15-day cash management. OHCP will notify the Ohio Department of Development's Audit Office of any irregularities identified during the fiscal monitoring that may require an audit of an HPRP grant recipient's award.

Although it was suggested that OHCP revise the monthly status report to reflect the monthly cash-on-hand balance, OHCP does not believe that this action would be a useful tool to ensure that advanced funds are expended in accordance with the 15-day cash management requirement, as outlined above. Instead, OHCP will mandate that OHCP staff carefully review each HPRP grant that is monitored to determine if any violation(s) of the 15-day cash management requirement exist(s); and, if it appears that an HPRP grant recipient is flagrantly violating the 15-day cash management requirement, will notify the grantee of the violation and, from that point forward, will only permit the disbursement of funds to the grantee on a reimbursement basis.

Risk	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Office Chief, Office of Housing and Community Partnerships	February 2011



## Appendix A – Classification of Audit Objective Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Major Improvements Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
<b>Improvements Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Well-controlled with Improvements Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)



## Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.
  
- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.
  
- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.