



City of Chattanooga, Chattanooga, TN

Emergency Solutions Grants Program



To: Mary C. Wilson, Director, Office of Community Planning and Development,
Knoxville, TN, 4JD

//Signed//

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

Subject: The City of Chattanooga, TN, Did Not Always Administer Its ESG Program in
Accordance With HUD's 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 the City of Chattanooga's Emergency Solutions Grants 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-1013

Date: September 28, 2017

The City of Chattanooga, TN, Did Not Always Administer Its ESG Program in Accordance With HUD's Requirements

Highlights

What We Audited and Why

We audited the City of Chattanooga's Emergency Solutions Grants (ESG) program. We selected the City for review in accordance with our annual audit plan. Our audit objective was to determine whether the City administered its ESG program in accordance with HUD's requirements.

What We Found

The City did not always administer its ESG program in accordance with HUD's requirements. Specifically, it did not ensure that program expenditures were adequately supported, payments to subrecipients and drawdowns from HUD's system were timely, and matching requirements for the subrecipients were sufficiently reviewed. These conditions occurred because the City (1) lacked adequate policies and procedures and an understanding of HUD's ESG program requirements, (2) did not cross-train its staff, and (3) failed to adequately monitor its subrecipients. As a result, nearly \$14,000 in program disbursements was not adequately supported, and HUD and the City lacked assurance that matching requirements were sufficiently met.

What We Recommend

We recommend that the Director of HUD's Knoxville, TN, Office of Community Planning and Development require the City to (1) support or reimburse HUD and its ESG program participants nearly \$14,000 from non-Federal funds for inadequately supported program expenditures and untimely drawdowns, (2) provide adequate training to staff associated with the administration of the ESG program, and (3) implement adequate policies and procedures for the timely issuance of subrecipient payments and the complete and consistent monitoring of subrecipients' matching requirements.

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Background and Objective

The Emergency Shelter Grants program was authorized by Subtitle B of Title IV of the McKinney-Vento Homeless Assistance Act of 1987 (42 U.S.C. (United States Code) 11371-11378). The Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 amended the McKinney-Vento Homeless Assistance Act, revising the Emergency Shelter Grants program and renaming it the Emergency Solutions Grants program (ESG).¹ It authorized the U.S. Department of Housing and Urban Development (HUD) to make grants to metropolitan cities, urban counties, territories, and States for the rehabilitation or conversion of buildings for use as emergency shelters for the homeless, the payment of certain operating expenses related to operating emergency shelters, essential services related to emergency shelters and street outreach for the homeless, and homelessness prevention and rapid rehousing assistance.

The City of Chattanooga was incorporated under the State of Tennessee Private Acts of 1839. It is governed by a mayor and a nine-member city council. The Community Development division of the City’s Department of Economic and Community Development is responsible for the administration of the City’s ESG program. During the period 2013 to 2016, the City received more than \$556,000 in ESG funding, which it awarded to seven subrecipients. Tables 1 and 2 summarize the ESG funds received by the City and the funds awarded to the subrecipients.

Table 1

Award year	ESG funds received by the City
2013	\$118,552
2014	138,151
2015	150,938
2016	148,904
Totals	556,545

Table 2

ESG funds awarded to seven subrecipients	2013	2014	2015	2016	Total
Family Promise of Greater Chattanooga	\$25,000	\$23,306	\$25,118	\$25,118	\$98,542
Chattanooga Community Kitchen	15,000	17,480	10,000	10,000	52,480
Chattanooga Room in the Inn	5,530	11,653	12,000	12,000	41,183
Partnership for Families, Children and Adults Family Shelter	24,566	25,948	10,000	10,000	70,514

¹ The regulations governing the ESG program may be found at 24 CFR (Code of Federal Regulations) Part 576.

ESG funds awarded to seven subrecipients	2013	2014	2015	2016	Total
Partnership for Families, Children and Adults Violence Shelter	24,566	26,097	27,500	22,500	100,663
Youth and Family Development	0	0	25,000	28,118	53,118
Hamilton County Government	15,000	23,306	30,000	30,000	98,306
Totals	109,662	127,790	139,618	137,736	514,806²

Our audit objective was to determine whether the City administered its ESG program in accordance with HUD's requirements.

² The difference of \$41,739 (\$556,545 - \$514,806) between the amount received by the City and the amount awarded to the subrecipients was the City's administrative costs, which did not exceed the allowed 7.5 percent limit.

Results of Audit

Finding 1: The City Did Not Always Administer Its ESG Program in Accordance With HUD's Requirements

The City did not always administer its ESG program in accordance with HUD's requirements. Specifically, it did not ensure that program expenditures were adequately supported, payments to subrecipients and drawdowns from HUD's system were timely, and matching requirements for the subrecipients were adequately reviewed. These conditions occurred because the City (1) lacked adequate policies and procedures and an understanding of HUD's ESG program requirements, (2) did not cross-train its staff, and (3) failed to adequately monitor its subrecipients. As a result, nearly \$14,000 in program expenditures was not adequately supported, the City unnecessarily used its own funds to pay its subrecipients, and HUD and the City lacked assurance that matching requirements were sufficiently met.

Program Expenditures Not Adequately Supported

The City did not ensure that 1 of the 13 pay requests reviewed³ was adequately supported. Specifically, during grant year 2013, a subrecipient, Family Promise of Greater Chattanooga requested \$1,500 in reimbursement for transportation costs but submitted an invoice for only \$795 in expenses. However, the City issued a payment to the subrecipient for the full amount requested without adequate documentation of the expense, contrary to HUD's and its own requirements. Both HUD⁴ and the City required⁵ that supporting documentation be maintained for all costs charged to the ESG grant. Therefore, we determined \$705 (\$1,500 - \$795) in program expenditures was not adequately supported.

The City explained that the payment was issued based on an agreement and not the invoice. However, a written agreement related to the payment in question did not exist. Family Promise provided a letter from its vendor stating that a verbal agreement existed and provided the historical payment record as support. However, the payment history was not consistent with the explanation provided. Specifically, the payment history showed fluctuating payments and did not reflect the set monthly amount of \$1,500 as explained. As a result, \$705 in program expenditures was not adequately supported.

The above condition occurred because the City believed that an agreement existed between the subrecipient and the subrecipient's transportation service provider, but the City did not maintain a copy of the documentation supporting the agreement as required. The subrecipient explained that the agreement for the monthly fee superseded the invoice. However, the City did not provide the agreement or adequate documentation to confirm the agreement.

³ Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

⁴ 24 CFR 576.500(u)

⁵ Accounting Procedures (A)

In addition, the City was unable to provide evidence that \$13,058 in program disbursements was incurred before the grant expired. Specifically, the City’s drawdown of \$13,058 from 2014 ESG funding, which totaled \$138,151, occurred more than 60 days after the grant agreement expired. The City’s 2014 ESG grant agreement was signed on July 21, 2014, and expired on July 20, 2016. However, the City did not complete the drawdown of available funds until September 26, 2016. HUD regulations⁶ state that the recipient must spend all funds for eligible activity costs within 24 months after the date HUD signs the grant agreement with the recipient. According to HUD’s field office director for the program, the recipient may also draw down funds up to 90 days after the grant expires or until the consolidated annual performance evaluation report is submitted, as long as the costs were incurred during the grant performance period. However, regardless of the 90-day allowance, the City was not able to support that the expenses were incurred before the grant expired.

Further, during its monitoring review of program years 2013 and 2014, conducted in April and May 2016, HUD determined that the City had until July 21, 2016, to draw down the remaining \$13,058 for the 2014 grant. Therefore, HUD provided the City with advance notice that the remaining funds were required to be drawn before the grant expired. However, the City was unable to support that the expenses were incurred during the grant performance period as discussed above. As a result, nearly \$14,000 in drawdowns was not adequately supported. This condition occurred because the City lacked an understanding of program requirements and did not complete the drawdown of available funds in a timely manner or maintain documentation to support that costs were incurred during the grant performance period.

Table 3 provides the inadequately supported program expenditures and inadequately supported drawdowns occurring after grant expiration.

Table 3

Program expenditures not adequately supported	Total
Inadequately supported pay request	\$705
Inadequately supported program funds drawn after grant expiration	13,058
Total	13,763

Program Timeliness Requirements Not Met

The City did not ensure that payments to subrecipients were issued in a timely manner. Specifically, it paid 6 of the 13 pay requests reviewed more than 45 days after the requests were received. HUD’s regulations⁷ required that the recipient pay each subrecipient for allowable costs within 30 days of receipt of the subrecipient’s pay request. The City’s policies and procedures⁸ provided general guidance for the processing of pay requests but did not include the timeliness requirements for issuing payments. Additionally, the City’s payment process for the

⁶ 24 CFR 576.203(b)

⁷ 24 CFR 576.203(c)

⁸ Accounting Procedures (A)-(C)

initial pay request on each grant award generally resulted in a 2-week delay in processing time for an initial payment. Specifically, the City’s voucher processing procedures required that its department administering the ESG program submit a request to the purchasing department to set up the initial purchase order for each subrecipient’s award before payments were made. Therefore, the request was required to be submitted to the purchasing department before the subrecipient’s first pay request could be processed. However, the request was not made to the purchasing department until the first pay request was received⁹ by the City because notification of the program award was not provided to the responsible official until a request was made for payment. If the process allowed the setup immediately upon the approval of ESG funding, the delay in processing the initial payment would likely be eliminated. The City stated that it was reviewing the process and agreed that the change would be an improvement.

While the City determined all of the requested costs to be allowable, it failed to comply with the requirement to pay for allowable costs within 30 days of receipt of the subrecipient’s pay request for 6 of the 13 payments reviewed. Table 4 summarizes the number of instances in which the requirement was exceeded.

Table 4

Number of days before City paid its subrecipients	Number of instances
31 days to 60 days	1
61 days to 90 days	4
more than 90 days	1
Total	6

In addition, the City did not comply with the timeliness requirement for drawing down funds from each year’s grant. HUD’s regulations¹⁰ required that the recipient draw down and spend funds from each year’s grant not less than once during each quarter of the recipient’s program year. We reviewed 13 quarters or drawdown periods during our audit scope, July 1, 2013, through September 30, 2016, and determined that the City did not draw any funds for the second quarter of 2015 and 2016. The City processed 7 pay requests for its subrecipients totaling more than \$26,000 during the second quarter of 2015 and 12 pay requests totaling nearly \$36,000 during the second quarter of 2016. While the City paid its subrecipients for pay requests submitted during the same period, it did not comply with the timeliness requirement for drawing down funds from each year’s grant. Therefore, the City unnecessarily advanced its own funds to its subrecipients when it drew down funds from HUD in an untimely manner.

We compared the lack of drawdowns in two quarters to the untimely processing of six pay requests to determine whether the lack of drawdowns caused the requests to be paid in an untimely manner. We noted that none of the six pay requests processed late fell in grant year 2016 but three pay requests that were not paid within 30 days of receipt occurred in the second quarter of grant year 2015. Based on staff interviews, we did not believe the City’s lack of

⁹ The City required its subrecipients to submit pay requests quarterly.

¹⁰ 24 CFR 576.203(b)

drawing down funds in the second quarter of grant year 2015 was the reason the three pay requests were late. Specifically, the staff stated that the City was understaffed for meeting timeliness requirements of the program. In addition, we noted that only one of six staff members in the department, including a supervisor, was designated to the ESG program and the only financial analyst dedicated to the department did not have backup when he was sick or on leave.

This condition occurred because the City did not cross-train its staff to ensure that it had adequate backup for the ongoing administration of the program in the absence of key staff designated to perform the drawdowns. The City had provided its designated staff, responsible for the administration of the program, with the regulations to ensure compliance with program requirements. However, at the time of our review, the City stated that it was in the process of cross-training staff, with the exception of the financial analyst, to mitigate similar issues and ensure the proper administration of the ESG program.

Inadequate Monitoring of Match Requirements

The City did not ensure that the matching requirements for the subrecipients were adequately reviewed. Specifically, it did not always obtain or review the source documentation, independently confirm that the funds were eligible for matching, or confirm that the funds were provided after the date HUD signed the grant agreement. HUD’s regulations¹¹ required that a recipient make or ensure that matching contributions occurred to supplement the recipient’s ESG program in an amount that equaled the amount of ESG funds. The City required its subrecipients to provide matching contributions. Table 5 summarizes the ESG grant funding and the matching sources and funding used by subrecipients.

Table 5

Matching requirements reviewed for subrecipient	Award amount for 2013 through 2016	Funds used for matching for the period 2013 through 2016	Primary source of matching funds
Family Promise	\$98,542	\$160,058	Volunteer hours
Community Kitchen	52,480	236,627	Public contributions
Chattanooga Room in the Inn	41,183	46,745	Volunteer hours
Partnership for Families, Children and Adults Family Shelter	70,514	367,311	United Way
Partnership for Families, Children and Adults Violence Shelter	100,663	478,124	United Way
Youth and Family Development	53,118	0 ¹²	State grants
Hamilton County Government	98,306	220,161	Staff salaries from non-ESG funds

¹¹ 24 CFR 576.201(a)

¹² Although the primary matching source was identified on the grant application as State grants, the City was unable to provide documentation to support matching contributions for subrecipient Youth and Family Development. However, we did not question any funds because at the time of our review, the subrecipient had not spent any of its ESG grants, which had not yet expired.

Matching requirements reviewed for subrecipient	Award amount for 2013 through 2016	Funds used for matching for the period 2013 through 2016	Primary source of matching funds
Totals	514,806	1,509,026	N/A

Further, the City required that its subrecipients to identify the source of matching funds on grant application and each pay request. The supporting documentation to confirm the matching funds was required at annual monitoring review. However, the City did not always complete the monitoring checklists adequately or accurately and failed to complete the monitoring checklists consistently.

Conclusion

Program expenditures totaling \$13,763 were not adequately supported, the City unnecessarily used its own funds to pay its subrecipients, and HUD and the City lacked assurance that program matching requirements were sufficiently met. The City did not always administer its ESG program in accordance with HUD’s requirements because it (1) lacked adequate policies and procedures and an understanding of HUD’s ESG program requirements, (2) did not cross-train its staff, and (3) failed to adequately monitor its subrecipients.

Recommendations

We recommend that the Director of HUD’s Knoxville, TN, Office of Community Planning and Development require the City to

- 1A. Support or reimburse its ESG program participants \$705 from non-Federal funds for the inadequately supported pay request.
- 1B. Support or reimburse HUD \$13,058 from non-Federal funds for the drawdowns after program grant expiration.
- 1C. Implement adequate policies and procedures to ensure that payments to subrecipients are issued in accordance with HUD’s requirements.
- 1D. Provide adequate training to staff associated with the administration of the ESG program to ensure compliance with HUD’s requirements, including timely drawdowns.
- 1E. Implement adequate policies and procedures for conducting complete and consistent monitoring of subrecipients’ matching requirements, including confirming eligibility and existence of matching funds to ensure compliance with HUD’s requirements.

Scope and Methodology

We performed our audit work between January and May 2017 at the City's office located at Chattanooga City Hall, 101 East 11th Street, Chattanooga, TN, and at our office in Atlanta, GA. The audit period covered program funds awarded for the period July 2013 through September 2016.

To accomplish our objective, we interviewed HUD program staff, City employees, and staff for two subrecipients. In addition, we obtained and reviewed the following:

- Applicable laws, HUD's regulations at 24 CFR Part 576, approved grant agreements between the City and HUD, monitoring reports on the City conducted by HUD, and Integrated Disbursement and Information System (IDIS) reports.¹³
- The City's policies and procedures, financial records, and consolidated annual performance and evaluation reports; approved agreements between the City and its subrecipients; monitoring reports on subrecipients conducted by the City; and other supporting documentation.

During the period 2013 to 2016, the City received \$556,545 in ESG funding, which it awarded to seven subrecipients and used for its administrative costs. To understand how the City administered ESG, we reviewed payment requests submitted by the subrecipients to determine whether the disbursements were adequately supported and appropriate.

At the time of our review, the universe consisted of 72 pay requests totaling \$338,291 for the period July 1, 2013, through September 30, 2016. Using Audit Command Language and random number generator software, we selected a nonstatistical sample of 13 pay requests totaling \$55,527 (16 percent). We did not select a statistical sample due to the small universe size. Further, we did not review 100 percent of the pay requests as the pay requests reviewed provided sufficient evidence for the findings presented. Therefore, the results of this audit apply only to the items reviewed and cannot be projected to the universe of pay requests.

Computer-processed data generated by the City were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of the computer-processed data. Instead, our conclusions were based on the supporting documentation obtained during the audit, including but not limited to expenditure support documents, agreements, payments issued to subrecipients, drawdowns in IDIS, and monitoring checklists.

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

¹³ IDIS Online is a real-time, web-based computer application that provides financial disbursement, tracking, and reporting activities and enables HUD grantees to draw down program funds and report on activities and accomplishments.

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.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The City lacked adequate policies and procedures and an understanding of HUD's ESG program requirements, did not cross-train its staff, and failed to adequately monitor its subrecipients (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$705
1B	13,058
Totals	13,763


- 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



City of Chattanooga
Mayor Andy Berke

August 30, 2017

Ms. Nikita N. Irons
Regional Inspector General for Audit
Office of Audit (Region IV)
75 Spring Street, SW
Atlanta, GA 30303


SUBJECT: 2017 Audit Report – Emergency Solutions Grants Program

Dear Ms. Irons:

This correspondence is in response draft audit report of the City of Chattanooga's Emergency Solution Grant. For your review, we have enclosed a detailed response to your draft report and recommendations.

The City values it relationship with HUD and is appreciative of the HUD programs through which the lives of our low-and-moderate income households and our communities are changed for the better. We are also grateful for the professionalism demonstrated by the OIG staff during their visit.

Should you have any questions, please do not hesitate to contract me.

Sincerely,

Donna C. Williams
Administrator

101 East 11th Street, Suite 200 • Chattanooga, TN 37402 • Phone 423.643.7329 • www.chattanooga.gov

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2

Comment 3

City of Chattanooga, TN
Response to
U.S. Department of Housing and Urban Development
Office of Inspector General
2017 ESG Audit Report

Program Expenditures Not Adequately Supported

The City of Chattanooga (City) acknowledges that \$705 in program expenditures was made to a subrecipient, without adequate support documentation. The ESG subrecipient had a verbal agreement in place with the vendor (a non-profit entity providing transportation services to homeless and low-to-moderate income clients) for a set monthly amount of \$1,500 to transport clients to services and shelters. The \$1,500 flat rate is evident by the vendor's general ledger. Although summary information, for the year, from the vendor shows actual cost far exceeding the flat fee, the City should have obtained and maintained adequate documentation to confirm the agreement. The City has since obtained a copy of an executed, written copy of the agreement between the two parties.

The City agrees that a drawdown of \$13,058 from 2014 ESG funding occurred more than 60 days after the grant agreement expired. The signed agreement between HUD and the City allows grant recipients to draw down funds up to 90 days after the grant expires. The audit report indicates that regardless of the 90-day allowance, the City was not able to support that the expenses were incurred before the grant expired.

Mistakenly believing that the primary concern was related to the drawdown of funds after grant agreement expiration, the City did not provide documentation of expenditures. However, the can provide support documentation showing that the expenditures related to the drawdown of \$13,058 were incurred before the grant expired.

Program Timeliness Requirements Not Met

The City agrees that payments to subrecipients must be processed more timely and funds drawn down from HUD, at minimum, quarterly, as required. Policies and procedures will include the managing supervisor's review of the monthly compliance report provided by the City's Finance Department which indicate processing times for accounts payable. The managing supervisor will also conduct bi-monthly reviews of the PRO5 and PR91 – ESG Financial Summary in the HUD Integrated Disbursement and Information System (IDIS), to monitor grant and drawdown activity.

To ensure delays do not result from having only one staff person responsible for particular grants or areas of responsibility, the City attempts to have a backup for each designated staff member. Just prior to the audit, the staff person assigned as backup for the ESG program had

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

accepted a new position and the new backup had not been assigned. However, a backup for staff person administering the ESG program has been identified and training initiated.

To serve as backup for the fiscal analyst and process pay requests during his absence, two other staff members with IDIS access and draw down authorization have been assigned to obtain access into the City's voucher processing system.

Inadequate Monitoring of Match Requirements

The City agrees that it did not, at all times, adhere to processes necessary to properly determine, track, and document eligible match for the ESG grant provided by subrecipients. Furthermore, monitoring checklists for this area were not adequately completed.

The deficiencies regarding the match requirements are being addressed with staff becoming thoroughly knowledgeable of ESG and match regulations and providing this information to subrecipients in the application workshop and the mandatory subrecipient workshop held on July 18, 2017. To ensure that subrecipients' match is eligible and adequate, the City now requires support documentation, for pre-approved match, equaling or exceeding each pay request submitted.

The City has an established system whereby each ESG subrecipient is monitored, at minimum, annually. The managing supervisor will provide training to staff on properly monitoring subrecipients and completing support documentation and work papers.

Responses to Specific Recommendations

1A. Support or reimburse its ESG Program participants \$705 from non-Federal funds for the inadequately supported pay request.

The City would like to present documentation in support of the premise that although the payment was made without proper documentation in place, the City did not over pay for services received.

1B. Support or reimburse HUD \$13,058 from non-Federal funds for the drawdowns after program grant expiration.

The City will provide support documentation to the Director of HUD's Knoxville, TN Office of CPD, substantiating that the drawdown totaling \$13,058 was for eligible expenditures that were incurred within the allowable 90-days after grant expiration.

1C. Implement adequate policies and procedures to ensure that payments to subrecipients are issued in accordance with HUD's requirements.

Policies and procedures will include the managing supervisor's review of the monthly compliance report provided by the City's Finance Department which indicate processing times for accounts payable. The managing supervisor will also conduct bi-monthly reviews of the

Comment 1

Comment 2

Comment 3

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

PR05 and PR91 – ESG Financial Summary in the HUD Integrated Disbursement and Information System (IDIS), to monitor grant and drawdown activity.

To serve as backup for the fiscal analyst and process pay requests during his absence, two other staff members with IDIS access and draw down authorization and also have been assigned to obtain access into the City's voucher processing system.

1D Provide adequate training to staff associated with the administration of the ESG program to ensure compliance with HUD's requirements, including timely drawdowns.

City has incorporated into the Community Development policies and procedures the requirement that each staff member in the office is required to review federal regulations related all grants managed in the Community Development Office, at minimum, bi-annually, and upon issuances of notices from HUD. Documentation will consist of a spreadsheet, maintained by the Manager, listing dates of training/reviews along with staff person's and Manager's initials.

1E. Implement adequate policies and procedures for conducting complete and consistent monitoring of subrecipients' matching requirements, including confirming eligibility and existence of matching funds to ensure compliance with HUD's requirements.

City has implemented policies and procedures using schedules, standardized forms and checklists, determining eligibility of match prior to entering into contractual agreements, confirming through documentation as expenditures occur. To ensure that subrecipients' match is eligible and adequate, the City now requires support documentation, for pre-approved match, equaling or exceeding each pay request submitted.

The City has an established system whereby each ESG subrecipient is monitored, at minimum, annually. The managing supervisor will provide training to staff on properly monitoring subrecipients and adequately completing support documentation and work papers.

Comment 4

OIG Evaluation of Auditee Comments

- Comment 1 The City agreed that it should have obtained and maintained adequate documentation for program expenditure identified as not adequately supported. However, it stated that it would like to present documentation in support of the premise that it did not over pay for services received.
- The effect of not ensuring that adequate documentation is obtained and maintained is not limited to the payment being over or under. As stated in the report, the City did not always administer its ESG program in accordance with its own and HUD's requirements, which state that supporting documentation must be maintained for all costs charged to the ESG grant. The City should work with HUD's field office to ensure that findings and recommendations are adequately addressed.
- Comment 2 The City referenced its signed agreement with HUD, and stated that it allowed the City to drawdown funds up to 90 days after the grant expiration. In addition, the City stated that it did not provide documentation of expenditures as it mistakenly believed that the primary concern related to the drawdowns being after the grant expiration. However, its response on resolving the finding was not clear. Specifically, in one section of the comments, the City stated that it can provide support documentation showing that the expenditures related to the drawdown of \$13,058 were incurred before the grant expired. In another section, the City stated that it will provide support documentation to HUD's field office for the program substantiating that the drawdown totaling \$13,058 was for eligible expenditures that were incurred within the allowable 90-days after grant expiration.
- None of the signed funding approval/agreements between the City and HUD for award years 2013 through 2016 state that funds could be drawn up to 90 days after the grant expiration. However, as stated in the report, per HUD's field office program director, the City could drawdown funds after grant expiration as long as the costs were incurred during the grant performance period. In addition, our finding was not that the drawdowns had occurred after grant expiration but related to the supporting documentation. Specifically, the City could drawdown funds up to 90 days after the grant expired or until the consolidated annual performance evaluation report was submitted, as long as the costs were incurred during the grant performance period. Therefore, the City should work with HUD's field office to ensure that adequate documentation is provided to support that expenses for which drawdowns were made after the grant expired were incurred before the grant's expiration.
- Comment 3 The City agreed that payments to subrecipients must be processed more timely and that funds drawn down from HUD, at minimum, must be quarterly, as required. In addition, the City stated that its policies and procedures will include

monthly reviews of accounts payable, and bi-monthly reviews of HUD system reports to monitor timeliness of payments and drawdowns, respectively. Further the City stated that staff has been identified and training initiated in order to provide backup support for program administration and processing subrecipient payments.

We commend the City's understanding and its planned efforts to address the finding cited in this report. However, we have not received nor reviewed support to show that policies and procedures were updated or that training was initiated. Therefore, the City should work with HUD to ensure that adequate policies and procedures are implemented for compliance with HUD's ESG program requirements on timely subrecipient payments and drawdowns of HUD's funding.

Comment 4 The City agreed that it did not always properly determine, track, and document eligible match for the ESG grant provided by its subrecipients, and that the monitoring checklists for compliance review of match requirements were not adequately completed. In efforts to address this finding, the City stated that it (1) held a mandatory subrecipient workshop; (2) has implemented policies and procedures for determining eligibility of match prior to entering into contractual agreements and confirming through documentation when pay requests are submitted by subrecipients; and (3) will provide training to staff for properly monitoring subrecipients' compliance of match requirements.

We commend the City's understanding and efforts to address the finding cited in this report. However, we have not received nor reviewed support that a workshop was held, policies and procedures were updated, or that training was initiated. Therefore, the City should work with HUD to ensure adequate policies and procedures are implemented for compliance with HUD's ESG program requirements on matching contributions.