Issue Date	June 26, 2009
Audit Report Number	2009-FW-1011

TO: Sandra H. Warren
Director, Community Planning and Development, 6ED

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6 AGA

SUBJECT: The City of Houston, Texas, Did Not Adequately Monitor Its HOPWA Project Sponsors

HIGHLIGHTS

What We Audited and Why

We conducted an audit of the City of Houston's (City) Housing Opportunities for Persons with AIDS (HOPWA) program, which is managed by its Housing and Community Development Department (Department), as part of our strategic plan and regional goals. Our objective was to determine whether the City and its project sponsors complied with U. S. Department of Housing and Urban Development (HUD) HOPWA regulations, requirements and its grant agreements. Specifically, we determined whether (1) expenditures and reimbursements paid by and submitted to the Department were eligible and supported, (2) project sponsors maintained adequate client file documentation to support eligibility, (3) project sponsors' sites complied with HOPWA housing quality standards, and (4) the Department adequately monitored project sponsors.

What We Found

The City's Department and its project sponsors generally complied with its HOPWA grant requirements and HUD regulations as testing on expenditures, reimbursement requests, client file documentation, and site conditions did not

disclose any eligibility or compliance issues. However, in violation of its HOPWA grant agreement, the City did not consistently monitor 15 of 18 project sponsors. Monitoring did not occur because the City's Department did not have the necessary personnel with the experience needed to conduct the required monitoring. The City's failure to monitor the project sponsors put $7.5 million in HUD funds at risk.

What We Recommend

We recommend that the Director of HUD's Houston Office of Community Planning and Development require the City to (1) consistently monitor its project sponsors in compliance with its grant agreements and (2) ensure that project sponsors submit the required monthly and quarterly reports in a timely manner or enforce its grant agreements, including declaring breach and withholding funding, if the project sponsors fail to submit them.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the finding with the City during the audit. We provided a copy of the draft report to the City on May 20, 2009, for its comments and discussed the report with City and HUD officials at the exit conference on June 9, 2009. The City provided its written comments to our draft report on June 19, 2009. In its response, the City generally agreed with the finding and recommendations. The City provided several corrective measures that it will implement. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report. The City also provided additional attachments, which are not included as they are voluminous but are available upon request.

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BACKGROUND AND OBJECTIVE

For fiscal years 2006 through 2008, the City of Houston (City) received formula-based Housing Opportunities for Persons with AIDS (HOPWA) grants of more than $6 million per year from the U. S. Department of Housing and Urban Development (HUD). The City's Housing and Community Development Department (Department) administers the HOPWA grants including providing program management and oversight. Eligible HOPWA participants must reside within the Houston eligible metropolitan statistical area, which includes the cities of Houston, Baytown, Pasadena, and 10 counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller.

The City's HOPWA grants provide (1) tenant-based rental assistance; (2) short-term rent, mortgage, and utility assistance; (3) facility-based housing assistance, including leasing certain facilities; and (4) other supportive services, consisting of mental health assessment, drug and alcohol abuse treatment and counseling, nutritional services, and case management.

During the 2006-07 program year, the City reported that, through 17[1] project sponsors, it provided short-term rent, mortgage, and/or utility assistance to 1,558 individuals and their families; tenant-based rental assistance payments to 273 individuals and their families; supportive services to an additional 1,479 individuals and their families; and facility-based housing to 522 individuals and their families by providing funding for 147 units in community residences. Additionally, the City reported that during the 2007-08 program year, through 16[2] project sponsors, it provided short-term rent, mortgage, and/or utility assistance payments to 903 households; tenant-based rental assistance payments to 307 households; supportive services to 134 households; and facility-based housing to 300 households by providing funding for 250 units in community residences. Funding is reported below.

HOPWA project sponsors	2006	2007
A Caring Safe Place, Inc.	$384,855	$394,255
AIDS Coalition Coastal Texas	$384,999	$384,999
AIDS Foundation Houston	$2,500,000	$2,190,135
Bering Omega Community Services	$745,790	$1,136,500
Bonita Street House of Hope	$416,727	$350,000
Bread of Life	$542,911	N/A
Brentwood E.C.D.C.	$412,207	$444,050
Career & Recovery Resources	$64,233	$64,233
Catholic Charities Diocese of Galveston-Houston	$350,000	$350,000
Educational Program Inspiring Communities	N/A	$75,009
Houston Area Community Services	$642,000	$1,045,000
Houston HELP/Corder Place	$288,096	$310,000
Houston SRO Housing Corp.	N/A	$78,728
New Hope Counseling Center	$138,971	$169,595
SEARCH, Inc.	$591,724	$54,768
Volunteers of America Texas	$476,194	$485,000
WAM Foundation	$411,373	N/A
Donald R. Watkins Memorial Foundation	$431,700	N/A

[1] One project sponsor, River Oaks, did not receive funding during our audit period.
[2] One project sponsor, Bread of Life, cancelled its contract with the City in March 2007.

Our objective was to determine whether the City and its project sponsors complied with HUD HOPWA regulations and requirements. Specifically, we determined whether (1) expenditures and reimbursements paid by and submitted to the Department were eligible and supported, (2) project sponsors maintained adequate client file documentation to support eligibility, (3) project sponsors' sites complied with HOPWA housing quality standards, and (4) the Department adequately monitored project sponsors.

RESULTS OF AUDIT

Finding: The City Did Not Adequately Monitor Its HOPWA Project Sponsors

Generally, the City complied with its grant requirements and HUD regulations as testing on expenditures, reimbursement requests, client file documentation, and site conditions did not disclose any eligibility or compliance issues. However, in violation of its grant agreement with the project sponsors, the City did not consistently monitor 15 of 18 HOPWA project sponsors during our review period, June 2006 through June 2008. The City's failure to monitor 83 percent (15 of 18) of its project sponsors occurred because it did not have the necessary personnel with the experience needed to conduct the required monitoring. The City's failure to monitor the project sponsors put $7.5 million in HUD funds at risk.

The City Did Not Conduct Required Annual Monitoring

Contrary to the requirements in the grant agreement between the City and its HOPWA project sponsors, the City did not conduct required annual monitoring of 15 HOPWA project sponsors during 2006 and 2007. The grant agreement between the City's Department and project sponsors required that project monitoring take place at least annually to ensure compliance with the contract. Also, the City's Department's monitoring policy stated that a comprehensive review would be conducted annually on each HOPWA project to determine compliance with HOPWA regulations. Although the City's Department was responsible for administering the City's HOPWA grant, the City was responsible for ensuring compliance with its grant agreement with HUD. Further, HUD regulations require the City to administer the grant agreement accordingly.[3]

As figure 1 shows, during 2006, the City did not annually monitor 10 project sponsors that received a total of about $6.6 million in HOPWA funds. Figure 2 shows that in 2007, the City monitored more project sponsors, but it did not annually monitor five project sponsors that received a total of more than $900,000 in HOPWA funds. The City's failure to annually monitor the project sponsors put $7.5 million in HUD funds at risk.

[3] 24 CFR (*Code of Federal Regulations*) 574.500.

Figure 1 - 2006 project sponsors

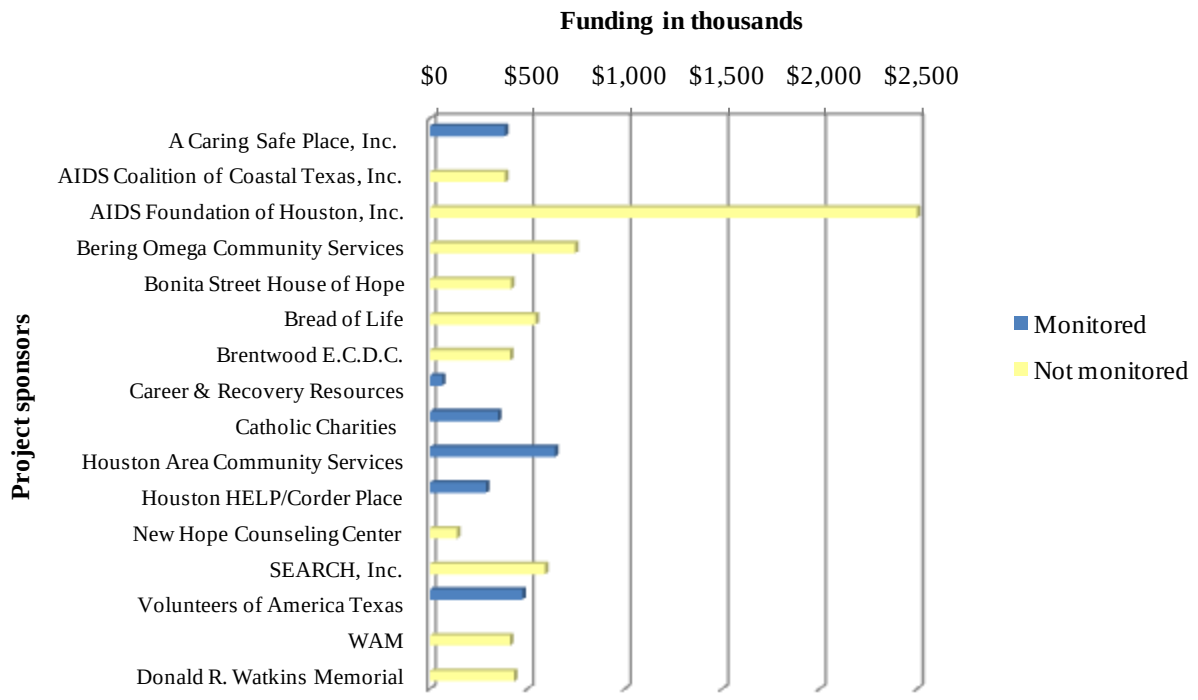
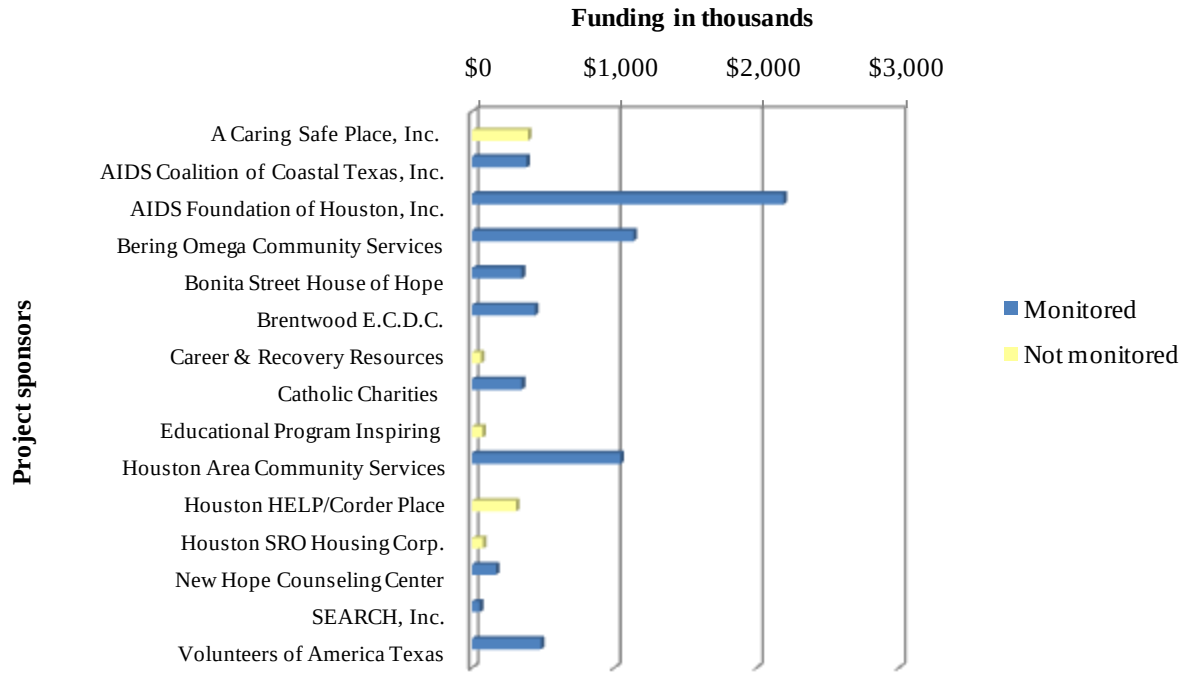


Figure 2 - 2007 project sponsors



Project Sponsors Did Not Submit Required Reports

The City's project sponsors failed to submit monthly and quarterly reports to the City, contrary to their grant agreement requirements. The City's Department used these reports to meet HUD's reporting requirements, measure the progress of the HOPWA program, evaluate the program's impact, and exercise general monitoring of the program. This deficiency was a material breach of the project sponsors' grant agreements with the City. However, the City did not enforce the terms of the grant agreements, which included withholding compensation and expense reimbursements to the project sponsors until they submitted the reports. Figures 3 and 4 show the significant percentages of project sponsors that did not submit or fully submit quarterly and monthly progress reports.

Figure 3 - Project sponsors submitting monthly reports

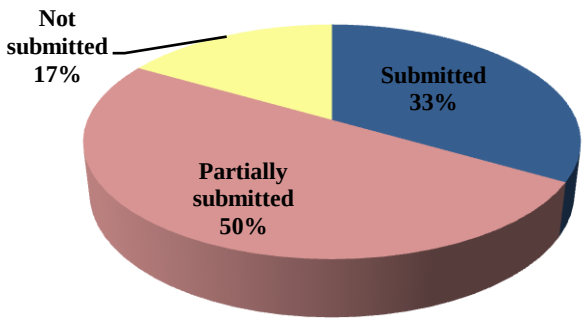
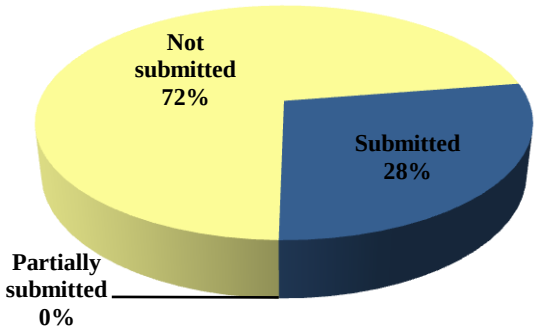


Figure 4 - Project sponsor submitting quarterly reports



Annual monitoring and oversight of the project sponsors' monthly and quarterly reports did not occur because the City's Department lacked the necessary personnel with the experience needed to conduct the required monitoring. A City Department official agreed that project sponsor monitoring did not occur during the Department's period of reorganization. The City's Department disbanded its Monitoring and Evaluation Section several years ago, which negatively affected monitoring. Several employees were reassigned, retired, and/or dismissed. The current HOPWA program staff is relatively new to the division, including the HOPWA division manager, who was hired in February 2008. The City's Department recently hired a former employee to assist with the monitoring. The HOPWA division manager stated that during his tenure as manager, every project sponsor had been monitored or scheduled for monitoring.

Testing Did Not Disclose Eligibility Issues

Testing of expenditures, reimbursement requests, client files, and on-site inspections did not disclose any eligibility issues. Expenditure testing was performed on 41 transactions, which were found to be supported and eligible according to the City Department's and HUD's requirements. Reimbursement testing on 25 reimbursement requests found the expenses to be supported and eligible HOPWA expenses. Testing of 51 client files from six project sponsors showed that, overall, the client's files complied with HOPWA regulations. In addition, on-site inspections were performed at five community residences operated by four project sponsors. The community residences appeared to be decent and sanitary, and no compliance issues were found.

Conclusion

Overall, the City and its project sponsors complied with HUD HOPWA regulations and requirements. However, the City did not monitor project sponsors that received at a total of $7.5 million in HOPWA funding. Further, the City did not require the project sponsors to submit required monthly and quarterly reports. The City's Department acknowledged the deficiencies and agreed to implement improvements.

Recommendations

We recommend that the Director of HUD's Houston Office of Community Planning and Development require the City to

1A. Provide reports showing that the City is consistently monitoring its project sponsors in compliance with its grant agreements.

1B. Ensure that project sponsors submit the required monthly and quarterly reports in a timely manner or enforce its grant agreements, including declaring breach and withholding funding, if the project sponsors fail to submit them.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Researched HUD handbooks, the *Code of Federal Regulations*, and other requirements and directives that govern the City's HOPWA program.
- Reviewed HUD's July 20, 2007, monitoring report for the City's Community Development Block Grant, HOME Investment Partnerships, and HOPWA programs.
- Reviewed June 2006 through June 2008 HOPWA grant agreements executed between the City and the HOPWA project sponsors.
- Reviewed the City's annual audited financial statements, policies and procedures regarding the HOPWA program, and monitoring files for project sponsors.
- Reviewed a nonstatistical sample of 41 expenditure transactions from a universe of 1,366 and tested for eligibility and support.
- Reviewed a nonstatistical sample of 25 monthly payment requests from a universe of 142 monthly payment requests and tested for eligibility and support.
- Reviewed a nonstatistical sample of 51 client files from six of the 18 project sponsors and tested for compliance.
- Conducted on-site inspections of five nonstatistically selected community residences operated by four project sponsors.
- Performed certain tests on the computer-processed data obtained from the City. We determined the data to be sufficiently reliable to meet our objective.
- Interviewed personnel from HUD, the City's Department, and project sponsors.

The review generally covered the period June 1, 2006, through June 30, 2008. We performed our review from December 2008 through February 2009 at the City's Department, the project sponsors' offices, and OIG's office, all of which are located in Houston, Texas. We adjusted the review period when necessary.

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 reasonable basis for our finding and conclusion based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

- Policies and procedures that management has implemented to reasonably ensure that the uses of resources are consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The City did not comply with its HOPWA monitoring requirements.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

CITY OF HOUSTON
Housing & Community Development Department

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Mayor

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June 19, 2009

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Regional Inspector General for Audit
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Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Subject: Responses to Report of OIG Review of the City of Houston HOPWA Program after Exit Conference on June 9, 2009

Dear Mr. Kirkland:

Enclosed is the City's response to and revised comments regarding the draft report you sent to us under your cover letter dated May 20, 2009. We are also emailing this and the enclosures to Ms. Carroll and Ms. Warren so they will have it sooner than the paper copy may reach them.

We appreciate your staff returning to Houston for the exit conference on Tuesday, June 9th. They clarified what appeared to be a disconnection regarding our monitoring program.

If you have any questions regarding our comments, I suggest that you contact Keith Bynam, the HOPWA Division Manager, at 713-868-8396 or Ginger Vinson, our departmental Risk Manager, at 713-865-4206.

Sincerely,

Richard Celli
Director

Cc:

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Enclosures

Council Members: Toni Lawrence Jarvis Johnson Anne Clutterbuck Wanda Adams Michael Sullivan M.J. Khan, P.E. Pam Holm District H - Vacant James Rodriguez Peter Brown Sue Lovell Melissa Noriega Ronald C. Green Jolanda "Jo" Jones Controller: Annise D. Parker

List of Enclosures

Audit Response
Comments 1 through 5
Copy of November 2007 City Subrecipient Monitoring Plan
Copy of June 2009 City Monitoring Plan for Public Service and HOPWA (revised following the OIG Monitoring and Exit Conference)

Page 2: Auditee's Response

The City's Housing and Community Development Department (HCD) appreciates the comprehensive review and professional tone of the report from OIG. HCD is particularly pleased that the testing of expenditures and reimbursement requests, client file documentation, and site conditions did not disclose any eligibility or compliance issues.

Comment 1

HCD agrees that it should consistently monitor our project sponsors in compliance with the grant agreements and the procedures and guidelines. HCD will take the following actions:

- Modify the procedures and guidelines to reflect the intent that each HOPWA project sponsor will be monitored by a comprehensive review at least once during each contract period including any extension of six months or less of a contract period
- Modify the standard HOPWA project sponsor contract language to agree with the procedures
- Modify the Article V language in the HOPWA project sponsor contract to clarify what quarterly reports are required
- Aggressively collect and review quarterly financial reports from HOPWA project sponsors
- Changes to contract language will be implemented with renewals and/or new agreements
- Copies of the changes to the monitoring plan (procedures and guidelines) are being included with this response
- A copy of the modified contract language will be provided to HUD within 30 days

Appendix

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation Auditee Comments

Comment 1:

Page 6 and 7: The City Did Not Conduct Required Annual Monitoring

Comment 1

The City provided monitoring reports on all project sponsors listed for the "contract period" of each that fell within the time frame being audited by the OIG. The City's HOPWA Monitoring Procedures and Guidelines language for the time period OIG audited stated, "A comprehensive review is conducted annually on each HOPWA project to determine compliance with HOPWA regulations." This statement was and had for years been understood by the Division Managers of this area to mean that such a review would be conducted for each "contract period" including any extensions. A HOPWA contract period is normally one year but if extended might be as long as eighteen months. The City agrees that the specific language in the HOPWA procedures does not properly reflect the intent and will change this language to appropriately state the City's intent. Additionally, language in HOPWA project sponsor contracts will be addressed to assure it clearly reflects the City's intent. The new language will indicate that a comprehensive review is conducted at least once during each contract period including any extension of six months or less of a contract period.

Comment 2

The City's records indicate the following regarding OIG's Figure 1 – 2006 project sponsors on page 7:

All project sponsors listed, except WAM and Donald R. Watkins Memorial were monitored for this period. WAM was not monitored because they were not extended a grant for this time period. Donald R. Watkins Memorial was not monitored because they declined the grant for this period. We are enclosing copies of the monitoring reports that OIG listed as missing. Reports for WAM and Donald R. Watkins Memorial are not included since they were not applicable during this period.

The City's records indicate the following regarding OIG's Figure 2 – 2007 project sponsors on page7:
All project sponsors listed, except Career & Recovery Resources, were monitored for this period. Career & Recovery Resources did not have a grant agreement for the period from October 2007 through April 2008 and thus would not have been monitored. We are enclosing copies of the monitoring reports that OIG listed as missing. A report for Career & Recovery Resources is not included since it is not applicable.

The City requests that OIG review these reports and revise their report or clarify for HCD what OIG finds unacceptable regarding HCD's monitoring reports. HCD is also including a copy of the HOPWA monitoring schedule for the 2008 – 2009 time period which indicates all project sponsors have been or are scheduled for monitoring during the period. We invite OIG to return to HCD to confirm the information on the report.

Comment 3

Comment 2:
Page 8: Project Sponsors Did Not Submit Required Reports
The City acknowledges that project sponsor quarterly reports were not consistently being provided and that HCD did not aggressively track or pursue those that were missing during the time periods covered by OIG's audit, nor did HCD enforce terms in the grant agreements that permit, but do not require, withholding of compensation and expense reimbursements. HCD implemented aggressive tracking of the quarterly reports with the quarter ended December 31, 2008, after OIG brought this deficiency to the attention of the HOPWA Division Manager. HCD does not agree that monthly reports were not being received. HCD recognizes the project sponsors' payment requests as the monthly Program Reports. Payment requests are consistently provided by the project sponsors although not always by the 15th day of each month. The project sponsors' payment requests are critical for each to continue providing services so it is unlikely that they would not submit them. HCD will change the language in Article V of the grant agreements upon renewal to clarify that the monthly reports are the payment requests, to delete the requirement of a quarterly copy of its balance reconciliation and to add the requirement of a quarterly copy of its bank account(s) reconciliation report(s).

Comment 3:
Page 8: below Figure 3 and 4
The City does not believe that reorganization negatively affected HOPWA project sponsor monitoring. The City intentionally moved monitoring responsibility, including the staff members experienced in monitoring, into the product/program divisions to improve monitoring and accountability. The City does not believe reassignments, retirements, or dismissals of employees including assignment of the new HOPWA Division Manager have had a prolonged negative impact on HCD's ability to deliver HOPWA services in compliance with HUD requirements. The City does acknowledge that any reorganization requires a period of adjustment and that new employees require training and growth. We believe both have been managed appropriately within our HOPWA Division. While the HOPWA Division Manager acknowledges an adjustment period in 2006 following dissolving of the separate monitoring division, he also points out that the records show that monitoring of HOPWA projects was performed at the frequency he and his predecessors understood were required by the procedures and guidelines.

Comment 4:
Page 9: Conclusion

As supported by Comment 1, we do not believe $7.5 million in HOPWA funding contracts were not monitored. We believe all contracts noted in OIG's schedule as not being monitored, were monitored where grant agreements were in place. As noted in Comment 2, we believe the City did require and receive monthly reports.

Comment 5:

Page 11, Significant Weaknesses

The City does not agree that interpretation of the procedures and guidelines relating to frequency of HOPWA project sponsor monitoring constitutes a material internal control weakness, and in fact the City believes that the HOPWA Division has a strong monitoring program. The City understands that as grantee, it is our responsibility to ensure that any project sponsor has the capacity and capability to effectively administer the activity and for this reason included the monthly payment request and quarterly financial report requirements in the HOPWA project sponsor contracts. The City does not believe that we have failed in our responsibility as grantee given the strength of our HOPWA monitoring program and the fact that monthly payment requests are being received. However, we agree that aggressive tracking and reviewing of the quarterly reports will further strengthen our performance and provide even greater oversight of the project sponsors.

OIG Evaluation of Auditee Comments

Comment 1 The City agreed that it should consistently monitor its project sponsors in compliance with the grant agreements and the procedures and guidelines. Further, it stated that the language in its monitoring procedures, which states that "a comprehensive review is conducted annually on each HOPWA project to determine compliance with HOPWA regulations," was misunderstood by the City's staff. The City indicated it would change the language in both the monitoring procedures and the project sponsor grant agreement to clearly state the City's intent with regards to the monitoring requirements. We acknowledge the City's decisions.

Comment 2 The City disagreed with the results in figure 1 and figure 2. For 2006, the City responded that all project sponsors, with the exception of two, had been monitored. For 2007, the City stated all except one project sponsor had been monitored. We stand by our analyses and conclusions. Although the City did ultimately monitor the project sponsors, the figures show which project sponsors were not monitored on an annual basis as stated in the City's monitoring policy for 2006 and 2007.

Comment 3 The City agreed that project sponsor quarterly reports were not consistently being provided, aggressively tracked or pursued. Further, the City stated it would change the language in Article V of the grant agreements regarding the monthly and quarterly reports. We acknowledge the City's decision.