

City of Austin



**A Report to the
Austin City Council**

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**Office of the
City Auditor**

City Auditor
Kenneth J. Mory
CPA, CIA, CISA

Deputy City Auditor
Corrie E. Stokes
CIA, CGAP

AUDIT REPORT

American Recovery and Reinvestment Act (ARRA) Grants Monitoring Audit

August 2012



REPORT SUMMARY

The Health and Human Services Department's monitoring and review of ARRA funds was not sufficient to ensure full compliance with certain grant requirements, as client eligibility files did not contain adequate documentation to ensure payments were for eligible expenses. Austin Energy used ARRA funds in compliance with grant requirements to install solar powered outdoor learning centers at fifteen school campuses.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

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

AUDIT TEAM

Walton Persons, CPA, CICA, Assistant City Auditor
Karl V. Stephenson, CGAP, CICA, Auditor-in-Charge
Gus Rodriguez, CIA, CISA, CGAP, Auditor
Christopher Shrout, Auditor

Office of the City Auditor
Austin City Hall
phone: (512)974-2805
email: oca_auditor@austintexas.gov
website: <http://www.austintexas.gov/auditor>

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August 2012



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's (OCA) FY 2012 Strategic Audit Plan.

What We Recommend

HHSD should work with the Law Department to determine the extent to which it must report noncompliance with grant requirements.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

ARRA GRANTS MONITORING AUDIT

Mayor and Council,
I am pleased to present this audit on the American Recovery and Reinvestment Act (ARRA) Grants Monitoring.

BACKGROUND

As of June 20, 2012, the City of Austin had received twenty-five American Recovery and Reinvestment Act (ARRA) grants or loans totaling \$87 million. The City expended or obligated 89% of the funds for various programs including transportation, energy, clean water, housing, and health care. City departments that received ARRA funds performed the primary oversight duties specific to the grants. The City's Recovery Office coordinated reporting, provided training and technical assistance, and shared information on ARRA projects with the public.

OBJECTIVE AND SCOPE

The objective of the audit was to evaluate oversight efforts of the City's ARRA funding and test compliance with ARRA requirements. The scope included a review of expenditures and obligations for all ARRA funds awarded to the City and testing of three specific grants, one administered by Austin Energy (AE) and two administered by the Health and Human Services Department (HHSD).

WHAT WE FOUND

HHSD's monitoring and review of ARRA funds for the Homelessness Prevention and Rapid Re-Housing Program (HPRP) and the Community Services Block Grant (CSBG) was not sufficient to ensure full compliance with certain grant requirements. OCA found that client eligibility files did not contain adequate documentation to ensure payments were for eligible expenses. HHSD has expended all of the \$3.06 million grant for HPRP and the \$1.43 million grant for CSBG.

AE fully expended a \$450,000 U.S. Department of Energy ARRA grant in compliance with grant requirements to install solar powered outdoor learning centers at fifteen Austin Independent School District school campuses.


Kenneth J. Mory, City Auditor

BACKGROUND

This project was included in the Fiscal Year (FY) 2012 Strategic Audit Plan. The City of Austin successfully pursued various American Recovery and Reinvestment Act (ARRA) funding opportunities in areas ranging from transportation, energy, and health care. Through June 30, 2012, the City was awarded \$87 million either directly or as pass-through funds with 89% of those funds being expended or obligated through the end of the fiscal year. See Appendix B for a list of all ARRA funds awarded to the City.

Recipients of ARRA funds were required to exercise a high level of transparency, oversight, and accountability when managing ARRA funds. City departments that received ARRA funds performed the primary oversight duties specific to the grants. This audit included the monitoring and review activities for three ARRA grants administered by two departments, as shown in Exhibit 1.

EXHIBIT 1 Awards Tested by Auditors

City Department	ARRA Grant	Amount
Health and Human Services	Homelessness Prevention and Rapid Re-Housing Program	\$ 3.06 million
Health and Human Services	Community Services Block Grant	\$ 1.43 million
Austin Energy	Solar Curriculum Development and School Demonstration Project	\$ 0.45 million

SOURCE: City of Austin Recovery Office, Federal Stimulus Tracking List, Last Updated June 2012.

The City's Recovery Office coordinated reporting, provided training and technical assistance, and shared information on ARRA projects with the public. The Recovery Office also tracked ARRA activities, including the funding status for individual projects. This audit included a review of the funding status as of June 30, 2012 for the twenty-five ARRA grants and loans awarded to the City.

The City's external auditor has performed work related to ARRA grants in the City's Single Audit, which is audit work related to compliance with the Office of Management and Budget (OMB) Circular A-133. The grants selected for testing in this audit were not included in the most recent Single Audit performed by the external auditors.

OBJECTIVES, SCOPE, AND METHODOLOGY

The ARRA Grants Monitoring Audit was conducted as part of the OCA's FY 2012 Strategic Audit Plan, as presented to the Austin City Council's Audit and Finance Committee.

Objectives

The objectives of the audit were to evaluate oversight efforts of the City's federal stimulus (ARRA) funding and test compliance with the Act's requirements by determining the current status of funding: whether funds have been forfeited or are at risk of being forfeited; and determine for two projects administered by HHSD and one by AE, if funds have been used in ways that are allowed.

Scope

The audit scope included a review of expenditures and obligations for all ARRA funds awarded to the City and testing of three specific grants, one administered by Austin Energy (AE) and two administered by the Health and Human Services Department (HHSD), from award of the funding through April 30, 2012.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Interviewed HHSD management and staff including program managers, department managers and grant coordinators
- Analyzed the 2011 Annual ARRA Report and related ARRA transactions using data from the City's financial system
- Evaluated the current amount of unobligated ARRA funds in relation to contract time remaining of the award
- Selected a judgment sample of CSBG and HPRP client files for review
- Reviewed client files to determine if sufficient and appropriate client eligibility documentation existed
- Considered risk of fraud, waste, and abuse
- Considered information technology risks

AUDIT RESULTS

Overall, we found that monitoring and review of ARRA funds by the Health and Human Services Department (HHSD) was not sufficient to ensure full compliance with certain grant requirements. For two grants, the client eligibility files did not contain adequate documentation to ensure payments were for eligible expenses. We also found that ARRA funds awarded for the City's Solar Curriculum Development and School Demonstration Project were fully expended by Austin Energy (AE) in accordance with the grant requirements.

Finding 1: Monitoring of ARRA funds by HHSD was not sufficient to ensure compliance with federal requirements.

Weaknesses in HHSD's monitoring and review of ARRA funds allowed caseworkers to approve payments without properly documenting eligibility determinations. As a result, HHSD is not fully in compliance with the grant requirements and may be liable for certain costs. HHSD has expended all ARRA funding for these programs.

Auditors reviewed HHSD's administration of two ARRA grants obtained from the U.S. Department of Housing and Urban Development (HUD).

- HHSD obtained a \$3.1 million grant for the Homelessness Prevention and Rapid Re-Housing Program (HPRP). The HPRP program provides financial assistance and services to prevent individuals and families from becoming homeless and help those who are experiencing homelessness to be quickly re-housed and stabilized.
- HHSD obtained a \$1.4 million Community Services Block Grant (CSBG), which funded activities and services to address the needs of youth in low-income communities, remove obstacles and solve problems that block the achievement of self-sufficiency, obtain emergency assistance to meet immediate and urgent family needs, and secure and retain meaningful employment.

HHSD's monitoring of HPRP and CSBG funds was not sufficient to ensure all payments were for eligible expenses and supported by adequate documentation. Insufficient training may have contributed to errors on the intake forms designed to document client eligibility.

Auditors reviewed forty-six HPRP transactions and determined that the supporting documentation for fourteen (30%) payments was inadequate to demonstrate HHSD's compliance with grant requirements. As a result, there is a risk that HHSD overpaid HPRP benefits for the transactions tested by the auditors. For instance, six transactions did not contain sufficient documentation to demonstrate compliance with HUD requirements for ensuring the amount of rent paid on behalf of clients is reasonable. In addition, seven transactions did not contain sufficient documentation to demonstrate eligibility for the payments. Auditors identified one instance of a duplicate payment of \$222.82 for a client's utility bill.

For the CSBG grant, auditors reviewed thirty transactions and determined that one HHSD employee both initiated and approved four of the payments. This violated HHSD's policies regarding separation of duties and the department took disciplinary action against the employee when the error was discovered prior to this audit. In addition, files supporting two payments did not include documentation showing compliance with requirements for verification of income. The value of

these six transactions totals \$5,235. OCA excluded certain high-risk transactions from our testing due to a related investigation that has recently been completed and resulted in two indictments.

External auditors noted similar errors for the same period. In a subsequent review of actions taken to address the errors, they found that management had implemented an action plan to prevent the errors from occurring in the future. They also found that HHSD management had corrected the errors in the files reviewed by the external auditors. However, the errors identified by OCA were in files that the external auditors had not reviewed. As a result, it appears HHSD only corrected the files identified by the external auditors and did not take action to correct the other files for that period.

EXHIBIT 2
Award Exceptions

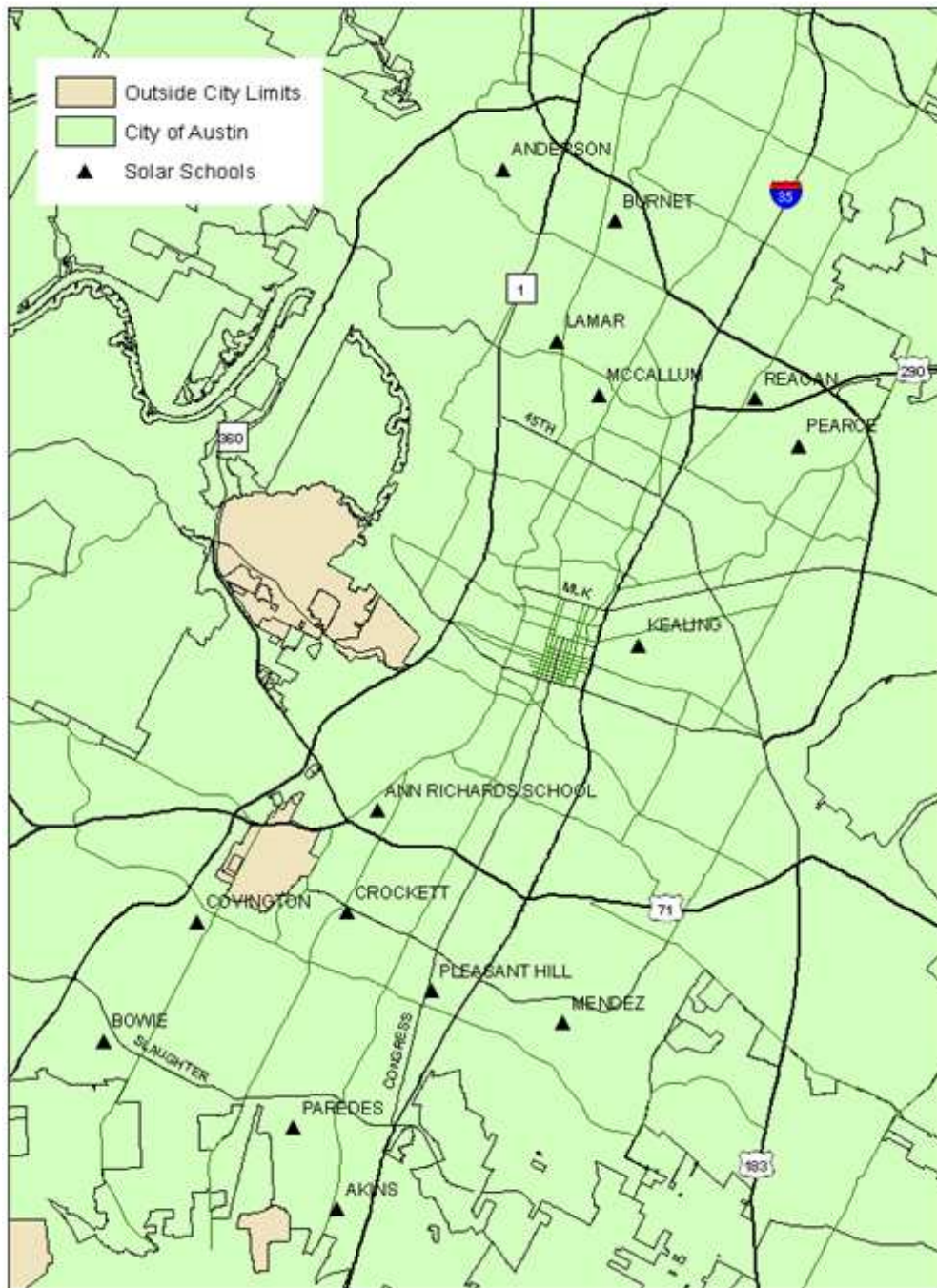
Award	Exception	Count	Details
HPRP	Rent Reasonableness	6	The ten exceptions included “rent reasonableness certifications” that were incomplete, inaccurate data regarding utilities, and comparisons to dissimilar properties to determine rent reasonableness.
HPRP	Support for Payment	7	Support was missing for habitability, electricity in arrears, lease agreements, and rent amounts due.
HPRP	Duplicate Payment	1	Two payments were submitted to Austin Energy for the same electric bill.
CSBG	Separation of Duties	4	An HHSD staff member signed as both a caseworker and a supervisor on client intake and payment forms.
CSBG	Income Verification	2	Documentation showing compliance with grant requirements regarding verification of income was missing.

SOURCE: OCA Analysis of ARRA Grant Expenditures, July 2012.

Finding 2: The ARRA award administered by Austin Energy for Solar Schools was fully obligated and the project was completed per grant requirements.

Austin Energy (AE) used a \$450,000 ARRA grant from the U.S. Department of Energy’s Solar America Cities program to install solar powered outdoor learning centers at fifteen Austin Independent School District (AISD) school campuses (see Exhibit 3). AE fully expended the ARRA funds and completed the City’s Solar Curriculum Development and School Demonstration Project per the grant requirements.

EXHIBIT 3
AISD Campuses with Solar Schools Learning Centers



SOURCE: OCA plotting of school campuses where Austin Energy installed outdoor learning centers, July 2012.

AE and AISD worked in partnership to complete the project with the objective to provide the highly visible, interactive learning centers that demonstrates the merits of solar technology.

OCA auditors confirmed that payments for the solar powered outdoor learning centers complied with contract terms and appropriate supporting documentation existed. Auditors also visited a sample of AISD campuses to confirm that installation of the learning centers was completed in compliance with the grant requirements. See Exhibit 4 for an example of one learning center.

EXHIBIT 4
Reagan High School Solar Powered Outdoor Learning Center



SOURCE: OCA photo, July 2012.

Additional Observation: We noted one ARRA project with a substantial fund balance as the contract nears its end date. The City should closely monitor all remaining ARRA funds to ensure ARRA funds are utilized.

We noted that one project, the Emissions Reductions Project, has a fund balance of \$305,673 with a contract end date of August 31, 2012. Fleet Services asserts it will complete the project and expend all funds by August 17, 2012. Overall, the City of Austin Recovery Office reports that as of June 30, 2012, eighty-nine percent (89%) of all ARRA funds have been spent or obligated. As the stimulus program ends, the Recovery Office and department management should closely monitor all grants and projects with remaining ARRA fund balances.

RECOMMENDATION

The recommendation listed below is a result of our audit effort and subject to the limitation of our scope of work. We believe that this recommendation provides a reasonable approach to help resolve the issue identified. We also believe that operational management is in the best position to understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendation. As such, we strongly recommend the following:

- 1. HHSD should work with the City of Austin Law Department to determine if self-reporting to the granting Federal Agency, the auditor's exceptions related to the ARRA-funded HPRP and CSBG programs is required.**

MANAGEMENT RESPONSE: CONCUR. HHSD will meet with the Law Department staff to determine if self-reporting the auditor's exceptions related to the ARRA –funded HPRP and CSBG program is required. Refer to Appendix A for management response and action plan.

MANAGEMENT RESPONSE




Austin/Travis County Health and Human Services Department



**Office of Director
P.O. Box 1088
Austin, Texas 78767
(512) 972-5010**

Memorandum

TO: Ken Mory, City Auditor
Office of the City Auditor

FROM: Carlos Rivera, Director 
Health and Human Services Department

DATE: August 24, 2012

SUBJECT: Health and Human Services' (HHSD) management response to the audit report entitled, *American Recovery and Reinvestment Act (ARRA) Grants Monitoring Audit*

I have reviewed the City Auditor's *ARRA Grants Monitoring Audit* report and concur with the Auditor's recommendation to consult with the City of Austin Law Department to determine whether exceptions stated in the report related to the Homeless Prevention and Rapid Re-Housing Program (HPRP) and Community Services Block Grant (CSBG) programs should be reported to the U.S. Department of Housing and Urban Development (HUD) and Texas Department of Housing and Community Affairs (TDHCA).

Prior Year CSBG Control Initiatives and Program Achievements:

The CSBG contract requires all subrecipients, including the City of Austin Health and Human Services Department, to submit single audit reports on an annual basis. The exceptions cited in this audit report by the Office of the City Auditor are the same concerns raised in both the 2009 and 2010 City of Austin Single Audits conducted by Deloitte & Touche, LLP.

Based on the 2010 Single Audit results, the following steps were taken by HHSD management:

1. A peer review policy was developed and implemented which requires a review of income eligibility and related support documents prior to service delivery. This peer review is documented and included in each client's file.
2. HHSD management also implemented enhanced training methodology including question and answer sessions, pre/post testing and evaluations in annual CSBG eligibility determination and staff development trainings.
3. For fiscal year 2011, all files were audited by HHSD staff. Staff continue to conduct peer reviews. Supervisor and management client record audits continue to be conducted to ensure eligibility requirements are met and policy and procedures are followed.

On August 22, 2012 an update was sent to TDHCA to inform them of recent developments with these grant funds.

During the period when CSBG ARRA funds were available, HHSD staff continued to perform their regular duties while also providing new services to an additional client population. In total, 230 households actively participated in the case management program; a total of 1,274 households received rent and utility assistance of which 1,119 households are unduplicated; 467 individuals received some level of workforce development services, including 94 individuals either securing

APPENDIX A

ARRA Grants Monitoring Audit
HHSD Management Response (continued)
August 24, 2012

employment or experiencing an increase in employment income; and 20 children received childcare services.

HPRP HUD Monitoring Results and Program Achievements:

HUD required all recipients of HPRP funding to implement programs very quickly. Before and after program implementation, guidance was provided to City staff. HUD continued to provide ongoing technical assistance on processes and updated federal regulations throughout the grant period. On May 14-16, 2012, HUD conducted a monitoring visit of the program. HUD monitoring staff included the Deputy Director from the Special Needs Assistance Program. On July 30, 2012, HHSD received results of the monitoring visit from HUD which stated "The City of Austin has established a comprehensive and well-coordinated program for providing homelessness prevention assistance for its residents." HUD commended HHSD staff for their well-established working relationships with the nonprofit agencies. HUD also commended staff on the HPRP Policy and Procedure Manual.

The City of Austin's HPRP program was selected as one of the nation's top five best practice model programs for administering HPRP grant funds. A film crew came out to interview City staff, nonprofit agencies, and HPRP clients for a HUD promotional video featuring best practices and lessons learned. Overall the program served 2,517 clients from 1,002 households. We collaborated with eleven nonprofit agencies that awarded \$1,911,203.30 in direct financial assistance.

Overall, HHSD staff should be commended for their hard work on both of these grants.

HHSD management appreciates your audit efforts and will use relevant audit report findings to improve future grant monitoring initiatives at HHSD.

If you have questions or need further information, please do not hesitate to contact me at 972-5010.

cc: Stephanie Hayden, HHSD Assistant Director, Community Services Division
Kymberley Maddox, HHSD Chief Administrative Officer
Susan Gehring, HHSD Manager, Community Based Resources Unit
Maria Allen, HHSD Manager, Neighborhood Centers Unit
Laura Diaz, HHSD Internal Auditor

APPENDIX A

ACTION PLAN

ARRA Grants Monitoring Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
1. HHSD should work with the City of Austin Law Department to determine if self-reporting to the granting Federal Agency, the auditor's exceptions related to the ARRA-funded HPRP and CSBG programs is required.	HHSD MANAGEMENT CONCURS: 1. HHSD will meet with the Law Department staff to determine if self-reporting the auditor's exceptions related to the ARRA –funded HPRP and CSBG program is required.	Underway	November 1, 2012

APPENDIX B

ARRA Grants Awarded to City of Austin

City Department	Program	Award Amount	Audited By (FY 2010-12)
Austin Energy	EERE: Energy Efficiency & Conservation Block Grant- George Washington Carver Museum and Library	\$ 363,250	Deloitte
Austin Energy	Solar Energy Technology Program: Solar Market Transformation	450,000	OCA
Austin Energy	EERE: Energy Efficiency & Conservation Block Grant (EECBG) - Formula	7,492,700	Deloitte
Austin Energy	EERE: Weatherization Assistance	9,604,809	Deloitte
Austin Energy	Better Buildings/Clean Energy Accelerator	10,000,000	Deloitte
Austin Transportation	Conservation Research and Development	62,708	N/A
Austin Transportation	Traffic Signals, Dynamic Message Signs, Intersection Safety Improvements	4,833,000	Deloitte
Austin Water Utility	Clean Water: Hornsby Bend Biosolids Management Plant Upgrades	31,815,000	Deloitte
Fleet Services	Transportation Energy Efficiency Alternative Fuels & Technology Stimulus	208,000	Deloitte
Fleet Services	State Energy Program: Emissions Reduction Project	607,209	Deloitte
Health & Human Services	Communities Putting Prevention to Work: Texas Mother Friendly Worksite Policy Initiative	10,000	N/A
Health & Human Services	Community Services Block Grant	1,430,692	OCA
Health & Human Services	Homeless Prevention & Rapid Re-Housing	3,062,820	OCA
Health & Human Services	Communities Putting Prevention to Work: Tobacco	7,473,150	Deloitte
Library	Broadband Technology Opportunities Program	63,152	N/A
Neighborhood Housing & Community Development	Community Development Block Grants	2,003,003	Deloitte
Neighborhood Housing & Community Development	Neighborhood Stabilization Program	2,065,344	Deloitte
Austin Police	Byrne Justice Assistance Grant-Regional Training Project	53,000	Deloitte
Austin Police	Violence Against Women Recovery Grant (3 projects)	310,173	Deloitte
Austin Police	Byrne Justice Assistance Grant (Competitive)	1,398,506	Deloitte
Austin Police	Byrne Justice Assistance Grant (Formula)	1,937,577	Deloitte
Public Works	Federal Aid Highways	325,000	Deloitte
Public Works	Federal Aid Highways for Street Overlays	1,500,000	Deloitte
TOTAL		\$ 87,069,093	

SOURCE: OCA analysis and the City of Austin Recovery Office's, Federal Stimulus Tracking List, Last Updated 6/30/12.