

**REPORT OF THE AUDIT OF THE  
LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES**

**For The Fiscal Year Ended  
June 30, 2008**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Honorable Jerry E. Abramson, Louisville/Jefferson County Metro Government, Mayor  
Members of the Louisville/Jefferson County Metro Government Metro Council

Independent Auditor's Report

We were engaged to audit the accompanying Statement of Revenues and Expenditures for the Louisville/Jefferson County Metro Government - Department of Housing and Family Services (Department) for the year ended June 30, 2008. This financial statement is the responsibility of Louisville/Jefferson County Metro Government.

As further explained in audit findings found in the accompanying Schedule of Findings and Questioned Costs, management of the Department failed to follow basic policies and procedures established within the Department and for the government as a whole. In addition, poor management oversight at the Department created a lax environment that allowed for an overall disregard of basic policies and procedures needed to conduct daily operations. Because policies and procedures were often not followed or possibly did not exist, questionable transactions, many of which included management override, occurred resulting in a high level of audit risk. Additionally, management of the Department recorded or caused to be recorded voluminous transactions through the use of journal vouchers, resulting in millions of dollars in expenditures, most notably payroll being moved from one cost center to another, one department to another or one fund to another without adequate supporting documentation to justify the transfer. The Department's financial records do not permit the application of other auditing procedures to these journal vouchers.

Since the Department did not adequately support transactions or follow prescribed procedures as noted above, and we were not able to apply other audit procedures to reduce audit risk to an appropriate level, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statement. Because of the scope limitations discussed in detail in paragraph two above, the scope of our work is not sufficient to enable us to express, and we do not express, an opinion on the schedule of expenditures of federal awards.



Honorable Jerry E. Abramson, Louisville/Jefferson County Metro Government, Mayor  
Members of the Louisville/Jefferson County Metro Government Metro Council

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2009 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

February 16, 2009

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
STATEMENT OF REVENUES AND EXPENDITURES - GOVERNMENTAL FUNDS**

**For The Year Ended June 30, 2008**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Operations Receipts		\$ 1,479,878		\$ 1,479,878
Miscellaneous Revenue	\$ 20,258	28,295		48,553
Federal Funds		6,923,663		6,923,663
Community Development Funds		3,098,107		3,098,107
HOME Program Funds		2,021,053		2,021,053
Federal Fees for Service		202,143		202,143
State Funds		290,413		290,413
Federal Passthru from State		6,388,186		6,388,186
Donations	199,793	22,046		221,839
Total revenues	<u>220,051</u>	<u>20,453,784</u>		<u>20,673,835</u>
<b>EXPENDITURES</b>				
Personal Services	4,899,853	6,103,927		11,003,780
Administrative and Other	5,198,509	2,597,617		7,796,126
Travel	26,817	46,369		73,186
Computer Equipment and Software	82,724	193,675		276,399
Utilities	65,817	51,033		116,850
Other Grant Related Expenditures	1,307,447	4,577,532		5,884,979
Supplies	93,949	1,427,131		1,521,080
Equipment and Capital Outlay	595,665	5,797,637	\$ 1,876,122	8,269,423
Total expenditures	<u>12,270,780</u>	<u>20,794,921</u>	<u>1,876,122</u>	<u>34,941,823</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (12,050,729)</u>	<u>\$ (341,137)</u>	<u>\$ (1,876,122)</u>	<u>\$ (14,267,988)</u>

The accompanying notes are an integral part of the financial statements.

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

Louisville/Jefferson County Metro Government (Metro Government) began operations January 6, 2003, and was formed from the merger of the former City of Louisville (founded in 1778 and incorporated in 1828) and Jefferson County, Kentucky (created in 1780). Metro Government operates under a Mayor-Council form of government.

The mission of the Department of Health and Family Services (HFS), a department of Metro Government, is to assist residents in establishing long-term economic, physical, and social well-being. HFS is focused on four major areas: safe and energy-efficient housing at various price point, household income supports, and policy and advocacy for populations with special needs.

The following is a summary of the significant accounting policies:

**A. Basis of Presentation**

The financial statements of Metro Government have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**B. Measurement Focus and Basis of Accounting**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Each fund is a separate accounting entity with a self-balancing set of accounts. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible during the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Metro Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The amounts reflected in the Statement of Revenues and Expenditures - Governmental Funds for HFS represent amounts included in the department's trial balance which is directly generated from Metro Government's general ledger. These amounts include operational charges that are not treated as expenditures under the modified accrual basis of accounting for presentation in the Metro Government Comprehensive Annual Financial Report (CAFR). For example, depreciation charges are included in the operational trial balance and reflected in this report, but are eliminated from the fund financial statements presented in the CAFR.

Metro Government reports unearned revenue on the fund financial statements. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when Metro Government receives resources before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when Metro Government has a legal claim to the

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Measurement Focus and Basis of Accounting (Continued)**

resources, the liability for unearned revenue is removed from the fund financial statements, and revenue is recognized.

Metro Government reports the following major governmental funds:

- The General Fund, Metro Government's primary operating fund, which accounts for all of the activities of the general government not required to be accounted for in another fund.
- The Special Revenue Fund, which accounts for the collection and disbursement of earmarked money, primarily federal and state grant money.
- The Capital Projects Fund, which accounts for the acquisition or construction of general capital assets.

**C. Budgets**

Budgets are adopted consistent with generally accepted accounting principles. An annual appropriated budget is adopted for the General Fund. This appropriated budget includes all transfers to capital projects funds for which transfers are designated for subsequent years' capital expenditures or for transfer to other capital or debt service funds or accounts.

Formal budgets are not adopted for the Special Revenue Fund or for the Debt Service Funds because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund to comply with these requirements. All annual appropriations from the General Fund lapse at year-end, except for unexpended grant and encumbered appropriations. Project-length financial plans are presented for all Capital Project Funds.

On or before June 1 of each year, pursuant to state statute, the Mayor proposes an Executive Budget to the Metro Council, incorporating an estimate of revenues and recommended appropriations from the General Fund. The Metro Council may hold hearings and discuss and amend the Executive Budget. On or before June 30 of each year, as required by state statute, the Metro Council adopts the Executive Budget, as it may have been amended, as the approved budget for the fiscal year beginning July 1. An affirmative vote of a majority of the Metro Council is required to change the proposed appropriations or to revise revenue estimates contained in the Executive Budget. An affirmative vote of the majority of the Metro Council is also required to amend the budget once it has been approved or to approve any supplemental appropriations.

All budget adjustments at the department level must be approved by the Chief Financial Officer consistent with the approved budget.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2008  
(Continued)**

**Note 2. Related Party Transactions**

An employee of Metro Government purchased an investment property which included the assumption of a HOME loan several years ago, prior to employment with Metro Government. This employee also had a son working at HFS during the year under review. The balance of this loan was paid off for the total balance of \$57,172.72 on June 26, 2008; thus there was no outstanding balance at June 30, 2008. The employee's son is no longer with the HFS department.

Metro Government had construction contracts with vendors, whose owners were related to an assistant director at HFS during fiscal year 2008. These contracts were appropriately procured and that employee is no longer with the HFS department.

**Note 3. Summer Food Grant Agreement**

During fiscal year 2008, HFS was not in full compliance with the Summer Food Service Program for the Children grant agreement. HFS received approval from the Kentucky Department of Education (KDE) to expend Summer Food Service Program for Children (SFSPC) funds for scholarships and camp enhancement programs, although it is now understood that the federal funding source, the U.S. Department of Agriculture (USDA), has the final determination on whether or not certain expenditures are allowable. HFS will ensure future SFSPC program compliance by consulting with the federal grantor prior to program implementation. HFS will cooperate with the USDA as needed to review the allowability of program expenditures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Other Supplementary Information**

**Fiscal Year Ended June 30, 2008**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of the Agriculture</u>		
Direct Programs:		
Supplemental Nutrition Assistance Program (CFDA 10.551)	FSOR-06-KY-01	\$ 48,880
Special Nutrition Assistance Program Outreach/ Participation Program (CFDA 10.580)	FSPA-07-KY-01	5,436
Passed Through Kentucky Department of Education: Summer Food Service Program for Children (CFDA 10.559)	056-W45-999-SU	<u>1,455,158</u>
Total U.S. Department of Agriculture		1,509,474
<u>U.S. Department of Housing and Urban Development</u>		
Direct Programs:		
Community Development Block Grants/ Entitlement Grants (CFDA 14.218)	Various	6,853,317
Emergency Shelter Grant Program (CFDA 14.231)	Various	398,744
Supportive Housing Program (CFDA 14.235)	Various	227,478
Shelter Plus Care (CFDA 14.238)	Various	953,006
HOME Investment Partnership Program (CFDA 14.239)	Various	2,021,419
Housing Opportunities for Persons with AIDS (CFDA 14.241)	Various	422,382
Section 8 Housing Choice Vouchers (CFDA 14.871)	N/A	691,750
Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA 14.900)	Various	<u>1,107,862</u>
Total U.S. Department of Housing and Urban Development		12,675,958

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Other Supplementary Information  
Fiscal Year Ended June 30, 2008  
(Continued)**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>		
Direct Programs:		
Supervised Visitation, Safe Havens for Children (CFDA 16.527)	Various	136,607
Community Capacity Development Office (CFDA 16.595)	Various	<u>153,932</u>
Total U.S. Department of Justice		290,539
<u>U.S. Department of Energy</u>		
Passed-Through State Department of Health and Family Services:		
Weatherization Assistance to Low-Income Persons (CFDA 81.042)	M-06107251	574,878
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Special Program for the Aging - Title IV and Title II - Discretionary Projects (CFDA 93.048)	90AM2945	197,351
Passed-Through Kentuckiana Regional Planning and Development Agency:		
Special Programs for the Aging - Title III, Part B- Grants for Supportive Services and Senior Centers (CFDA 93.044)	M-06156729-9-(LOU)	15,000
Special Programs for the Aging - Title III, Part C- Nutrition Services (CFDA 93.045)	M-06156729-9-(LOU)	1,330,511
Nutrition Services Incentive Program (CFDA 93.053)	Not Available	217,034
Passed-Through State Department of Health and Family Services:		
Low-Income Home Energy Assistance (CFDA 93.568)	Various	2,906,635
Community Services Block Grant (CFDA 93.569)	PON273607000050361	<u>1,501,934</u>
Total U.S. Department of Health and Human Services		6,168,465

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Other Supplementary Information  
Fiscal Year Ended June 30, 2008  
(Continued)**

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
<u>U.S. Corporation for National and Community Services</u>		
Direct Programs:		
Retired and Senior Volunteer Program (CFDA 94.002)	Various	132,791
Foster Grandparent Program (CFDA 94.011)	Various	350,349
Passed-Through State Department of Health and Family Services:		
Americorps (CFDA 94.011)	KCCVS06000001757	217,251
Total U.S. Corporation for National and Community Services		700,391
<u>U.S. Department of Homeland Security</u>		
Passed-Through Metro United Way:		
Emergency Food and Shelter Board Program (CFDA 97.024)	342800-009	192,792
Total Cash Expenditures of Federal Awards		<u>\$ 22,112,497</u>

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Other Supplementary Information**

**Fiscal Year Ended June 30, 2008**

**Note 1.** The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Louisville/Jefferson County Metro Government - Department of Housing and Family Services and is presented on a modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in or used in, the preparation of, the basic financial statement.

**Note 2.** There were no non-cash expenditures of federal awards.

**Note 3.** Type A programs for the Department of Housing and Family Services mean any program for which total expenditures of federal awards exceeded \$700,000 for the fiscal year ended June 30, 2008.

**Note 4.** The federal expenditures includes grants to the sub-recipient as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Pass-Through Grant Amount</u>
Community Development Block Grants/ Entitlement Grants	14.218	\$ 368,955
Emergency Shelter Grant Program	14.231	398,744
HOME Investment Partnership Program	14.239	207,254
Housing Opportunities for Persons with AIDS	14.241	321,013
Supervised Visitation, Safe Havens for Children	16.527	168,636
Special Programs for the Aging - Title III, Part C- Nutrition Services	93.045	1,097,732
Special Program for the Aging - Title IV and Title II - Discretionary Projects	93.048	<u>139,768</u>
		<u>\$ 2,702,102</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jerry E. Abramson, Louisville/Jefferson County Metro Government Mayor  
Members of the Louisville/Jefferson County Metro Government Metro Council

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues and expenditures of the Louisville/Jefferson County Metro Government - Department of Housing and Family Services (Department), for the year ended June 30, 2008, and have issued our report thereon dated February 16, 2009, wherein we disclaimed an opinion on the financial statement. The Department presents its financial statements on the modified accrual basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified accrual basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiencies, described in the accompanying schedule of findings and questioned costs, to be significant deficiencies in internal control over financial reporting:



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

08-HFS01-01, 08-HFS02-02, 08-HFS03-03, 08-HFS04-04, 08-HFS05-05, 08-HOME11-06, 08-SFSPC40-07, 08-HFS06-08, 08-HOME07-09, and 08-HOME/CDBG15-10.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiencies to be material weaknesses: 08-HFS01-01, 08-HFS02-02, 08-HFS03-03, 08-HFS04-04, 08-HFS05-05, 08-HOME11-06, and 08-SFSPC40-07.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Louisville/Jefferson County Metro Government - Department of Housing and Family Services financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 16, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable Jerry E. Abramson, Louisville/Jefferson County Metro Government Mayor  
Members of the Louisville/Jefferson County Metro Government Metro Council

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Louisville/Jefferson County Metro Government - Department of Housing and Family Services (Department) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs included the following:

- Community Development Block Grant (CFDA 14.218);
- HOME Investment Partnership Program (CFDA 14.239);
- Summer Food Service Program for Children (CFDA 10.559);
- Low Income Home Energy Assistance (CFDA 93.568);
- Community Services Block Grant (93.569);
- Lead Based Paint Hazard Control in Privately-Owned Housing (CFDA 14.900);
- Shelter Plus Care (CFDA 14.238); and
- Special Programs for the Aging (CFDA Cluster 93.044, 93.045 and 93.053).

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of these major federal programs is the responsibility of the Department's management. Our responsibility is to express opinions on the Department's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Department's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the Department with the compliance requirements regarding activities allowed/un-allowed and allowable costs/cost principles for the following major programs:



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Compliance (Continued)

- Community Development Block Grant (CFDA 14.218);
- HOME Investment Partnership Program (CFDA 14.239);
- Summer Food Service Program for Children (CFDA 10.559);
- Low Income Home Energy Assistance (CFDA 93.568); and
- Community Services Block Grant (93.569).

Nor were we able to satisfy ourselves as to the Department's compliance with those requirements for these programs by other auditing procedures. Details of the circumstances related to these scope limitations are presented in items 08-HFS01-11 and 08-HFS04-14 in the accompanying schedule of findings and questioned costs.

As described in items 08-HOME08-16, 08-HOME/CDBG16-23, 08-HOME/CDBG18-25, 08-HOME/CDBG19-26, 08-CDBG22-29, 08-CDBG23-30, 08-LEAD26-33, 08-SPC29-36, 08-LIHEAP34-41, 08-LIHEAP35-42, 08-LIHEAP36-43, 08-SFSPC37-44, 08-SFSPC38-45, 08-SFSPC39-46, 08-SFSPC41-48 and 08-CSBG43-50 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding activities allowed/un-allowed and allowable costs/cost principles; cash management; earmarking; eligibility; program income; reporting; and sub-recipient monitoring, that are applicable to the following major programs:

- Community Development Block Grant (CFDA 14.218);
- HOME Investment Partnership Program (CFDA 14.239);
- Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA 14.900);
- Shelter Plus Care CFDA 14.238);
- Low Income Home Energy Assistance (93.568);
- Summer Food Service Program for Children (CFDA 10.559); and
- Community Services Block Grant (CFDA 93.569).

Compliance with such requirements is necessary, in our opinion, for the Department to comply with requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, for the year ended June 30, 2008, the Department did not comply in all material respects, with the requirements referred to above that are applicable to the following major programs:

- Community Development Block Grant (CFDA 14.218);
- HOME Investment Partnership Program (CFDA 14.239); and
- Summer Food Service Program for Children (CFDA 10.559).

Also, in our opinion, except for the noncompliances described in the fourth paragraph and for the effects of other noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements regarding activities allowed/un-allowed and allowable costs/cost principles for Low Income Home Energy Assistance (93.568) and Community Services Block Grant (CFDA 93.569), for the year ended June 30, 2008, the Department complied, in all material respects, with the requirements referred to above that are applicable to the following major programs:

Report On Compliance With Requirements  
 Applicable To Each Major Program And On Internal Control  
 Over Compliance In Accordance With OMB Circular A-133  
 (Continued)

Compliance (Continued)

- Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA 14.900);
- Shelter Plus Care (CFDA 14.238);
- Low Income Home Energy Assistance (CFDA 93.568); and
- Community Services Block Grant (CFDA 93.569).

Additionally, in our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to Special Programs for the Aging (CFDA Cluster 93.044, 93.045 and 93.053) for the year ended June 30, 2008.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-HOME07-15, 08-HOME12-20, 08-HOME13-21, 08-HOME/CDBG17-24, 08-HOME/CDBG21-28, 08-SPC30-37, 08-SPC31-38, 08-SPC32-39, and 08-CSBG42-49.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-HFS01-11, 08-HFS02-12, 08-HFS03-13, 08-HFS04-14, 08-HOME07-15, 08-HOME08-16, 08-HOME09-17, 08-HOME/CDBG/LEAD10-18, 08-HOME11-19, 08-HOME12-20, 08-HOME13-21, 08-HOME/CDBG14-22, 08-HOME/CDBG16-23, 08-HOME/CDBG17-24, 08-HOME/CDBG18-25, 08-HOME/CDBG19-26, 08-HOME/CDBG20-27, 08-HOME/CDBG21-28, 08-CDBG22-29, 08-CDBG23-30, 08-LEAD24-31, 08-LEAD25-32, 08-LEAD26-33, 08-SPC27-34,

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

08-SPC28-35, 08-SPC29-36, 08-SPC30-37, 08-SPC31-38, 08-SPC32-39, 08-LIHEAP33-40, 08-LIHEAP34-41, 08-LIHEAP35-42, 08-LIHEAP36-43, 08-SFSPC38-45, 08-SFSPC39-46, 08-SFSPC40-47, 08-SFSPC41-48 and 08-CSBG43-50 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-HFS01-11, 08-HFS02-12, 08-HFS03-13, 08-HFS04-14, 08-HOME08-16, 08-HOME09-17, 08-HOME/CDBG/LEAD10-18, 08-HOME11-19, 08-HOME13-21, 08-HOME/CDBG16-23, 08-HOME/CDBG18-25, 08-HOME/CDBG19-26, 08-HOME/CDBG20-27, 08-CDBG22-29, 08-CDBG23-30, 08-LEAD24-31, 08-LEAD25-32, 08-LEAD26-33, 08-SPC27-34, 08-SPC28-35, 08-SPC29-36, 08-SPC30-37, 08-SPC31-38, 08-SPC32-39, 08-LIHEAP33-40, 08-LIHEAP34-41, 08-LIHEAP35-42, 08-LIHEAP36-43, 08-SFSPC38-45, 08-SFSPC39-46, 08-SFSPC40-47, 08-SFSPC41-48, and 08-CSBG43-50 to be material weaknesses.

The Department's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 16, 2009

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2008**



**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2008**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses a disclaimer of opinion on the statement of revenues and expenditures of Louisville/Jefferson County Metro Government - Department of Housing and Family Services.
2. Ten significant deficiencies, with seven considered to be material weaknesses relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of Louisville/Jefferson County Metro Government - Department of Housing and Family Services were disclosed during the audit.
4. Thirty-eight significant deficiencies relating to the audit of the major federal awards programs are reported, with thirty-three considered to be material weaknesses.
5. There were twenty-seven noncompliances relative to the major federal awards programs reported for Louisville/Jefferson County Metro Government - Department of Housing and Family Services.
6. The auditor's report on compliance for the audit of the major federal awards programs for Louisville/Jefferson County Metro Government - Department of Housing and Family Services expresses three adverse opinions, four qualified opinions and one unqualified opinion.
7. The programs tested as major programs were:
  - Summer Food Service Program for Children (CFDA #10.559);
  - Community Development Block Grants (CFDA #14.218);
  - Shelter Plus Care (CFDA #14.238);
  - HOME Investment Partnership Program (CFDA #14.239);
  - Lead-Based Paint Hazard Control in Privately-Owed Housing (CFDA #14.900);
  - Special Programs for the Aging - Title III;
  - Part B-Grants for Supportive Services and Senior Centers (CFDA #93.044);
  - Special Programs for the Aging - Title III;
  - Part C-Nutrition Services (CFDA #93.045),
  - Nutrition Services Incentive Program (CFDA #93.053);
  - Low-Income Home Energy Assistance (CFDA #93.568); and
  - Community Services Block Grant (CFDA #93.569).
8. The threshold for distinguishing Type A and B programs was \$700,000.
9. Louisville/Jefferson County Metro Government - Department of Housing and Family Services County was not determined to be a low-risk auditee.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

*Material Weaknesses Relating to Internal Controls*

**FINDING 08-HFS01-01: Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error**

During our audit we noted, based on interviews with the Department of Housing and Family Services (HFS) staff, as well as audit procedures conducted throughout the audit, that those in management positions did not have a basic understanding of the programs within HFS, did not provide proper staff direction, and did not provide proper oversight of procedures and processes. Several staff and managers interviewed could not tell Auditor of Public Accounts staff what job functions were assigned to them, to whom they were to report, or who they supervised. Management regularly moved staff from one program or division to another and did not fill program manager positions, which are essential to proper grant administration. This resulted in staff working on and overseeing federal programs with which they were not familiar and without the benefit of knowledgeable management oversight.

One significant example is that management did not follow proper procedures for personnel changes. Normally, when an employee is moved from one grant or cost center to another, this change is reflected in PeopleSoft, Metro's payroll system. This would ensure that an employee's time is charged to the correct grant or cost center. HFS management did not make appropriate changes in PeopleSoft, but instead used journal vouchers to move payroll expenses from one grant or cost center to another.

Journal vouchers are entries made in an accounting system for the purposes of making corrections or adjustments to the accounting data, or to post other non-routine transactions. Journal vouchers should not be used, as they were by HFS, to move payroll charges within or between cost centers for multiple employees every pay period.

Many of the journal vouchers reviewed by auditors did not have appropriate documentation to support the validity of the transaction, and in some cases, HFS staff creating and posting the transactions were not in the appropriate positions to do so. For control reasons, the appropriate designated authority should approve all journal vouchers before the entry is posted to the financial records.

Approximately 1,280 journal vouchers were processed during fiscal year 2008, resulting in a net of \$17,000,000 in adjustments to the accounting data for HFS. HFS expenditures for fiscal year ending June 30, 2008, totaled \$34,946,207. The net adjustment represents 49% of the total expenditures reported. This is an alarming percentage. While a limited number of journal vouchers are expected to occur during the course of the year, a journal voucher should be the exception and not the rule.

Because of HFS management's lack of understanding, direction and oversight, the use of journal vouchers to move payroll expenses in fiscal year 2008 greatly increased the risk of fraud or errors in the financial information presented for HFS. This increased risk can lead to financial statement misstatement because the reporting team at the Department of Finance is relying on account balances that may not exist and accounts that cannot be reconciled to outside sources, such as IDIS (Integrated Disbursement and Information System), which is a system used by HUD to track federal projects and related expenses.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS01-01: Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error (Continued)**

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There is also the risk that grant expenditures reimbursed by the federal government can be erroneously drawn down, and millions of dollars can be at risk for loss due to fraud, error, or improper financial reporting.

A strong internal control function should exist along with a top management team that understands those controls. Management should also understand the applicable grant requirements and the policies and procedures necessary to manage the day-to-day operations. When these basic elements exist, staff then understand their role in the organization and are provided a strong ethical example that should resonate from the “tone at the top” throughout the organization.

**Recommendation**

We recommend that Metro immediately appoint a strong management team that has the capability to oversee the day-to-day financial and programmatic operations of HFS. Management should immediately meet with staff to gain an understanding of each employee’s strengths and knowledge, so that they can be properly assigned within HFS. An organizational chart should be updated as soon as all staff are properly assigned. PeopleSoft should be updated to reflect the correct cost center for each employee. This will eliminate the use of journal vouchers to move payroll expenses between cost centers and grants. HFS management should restrict the use of journal vouchers to non-routine transactions, and require proper approval by management and the Department of Finance.

**Management’s Response and Corrective Action Plan**

*Louisville Metro Government (“Metro”) recognized that there were issues in the previous year at the Department of Housing and Family Services (“HFS”), and took steps to appoint a strong management team. Management personnel who have been replaced or removed include the former department director, assistant director of the department, the assistant director of Housing and the business office manager.*

*The issues presented in this finding have been addressed through the assignment of Christina Heavrin as Interim Director to HFS. Ms. Heavrin, Special Counsel to the Mayor, has reviewed the departmental management functions, interviewed staff, reassigned management staff to the business office and created a grants compliance unit to oversee the day-to-day financial and regulatory operations of HFS.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS01-01: Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The department's organizational chart has been updated to reflect these changes and is included with these responses as Attachment A. Although an organizational chart existed, staff functions had been changed and not adequately documented and/or communicated to staff as a result of the reorganization of this department in the prior year. The new organizational chart clearly identifies the lines of authority, responsibility and supervision.*

*Journal vouchers are the entries made to the general ledger in the Metro financial system ("LeAP"), and can include routine and non-routine transactions. In accordance with Metro policy, appropriate authorizing signatures and supporting documentation are required for all journal vouchers processed in LeAP. While there were a number of adjustments to payroll for the HFS department, the payroll expenditures in total appear to be appropriately reflected in the financial statements (see additional discussion with FINDING 08-HFS-04[-04]).*

*Additionally, many of these changes were a result of restructuring within the department, and these have been appropriately addressed and corrected within the PeopleSoft system (Metro's payroll system) in the first half of fiscal year (FY) 09. The department's position control report, which lists the location and cost center information for all employees, has been updated to ensure that employees are being coded to the correct cost centers to eliminate the overuse of journal entries to move payroll expenses between cost centers and grants.*

*It is also important to note that this comment indicates that "several" staff and managers interviewed could not provide the Auditor of Public Accounts ("APA") information regarding their respective roles. Based on subsequent conversations with the auditors, the APA indicated that there were only four employees who stated this. There are 206 permanent full-time employees in the HFS department.*

*Through a review of the business office functions and staff capabilities in early November by the former City of Louisville Director of Internal Audit, new management was transferred to oversee the financial activities of the department. Vacant positions are being filled with staff members that have the skills, knowledge and ability to ensure that the financial policies and procedures are followed when processing payments and transactions for the department. Moving forward, appropriate personnel of HFS will meet weekly with the Department of Finance and Administration ("Finance") staff and monthly with the U.S. Department of Housing and Urban Development ("HUD") to ensure continued improvement on the corrective action plan.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS01-01: Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*In August 2008, the newly hired Housing division director, met privately with each staff member in the Housing division to understand the responsibilities of each, and to solicit opinions on what worked and what did not work in the division. The division directors of Community Action Partnership ("CAP") and Human Services routinely interact with their staff to ensure that the employees have the skills and resources to perform their respective tasks. A process of clarification of roles and divisional re-organization is reflected in the organizational chart.*

*In addition, a Grants Planning, Compliance and Monitoring Unit ("Compliance Unit") has been created to process federal and state grants from pre-application through close-out. This unit reports directly to the department director and will assist staff in drafting grant applications, determine eligibility of projects for grant funding and ensure that program and reporting requirements for the expenditure of grant funds are met. The unit will monitor outside recipients for compliance with federal and state guidelines, manage the HUD Integrated Disbursement and Information System ("IDIS") reporting system and assist with other grant related compliance issues as needed.*

*At the time of Metro's response to this report, HFS is awaiting the results of the ongoing investigations by Metro's Internal Auditor and the Louisville Metro Police Department's Public Integrity Unit. If the findings of these investigations expand the scope of issues contained in this audit, management will take the appropriate action immediately.*

**Auditor's Reply**

The Auditor of Public Accounts acknowledges steps have been taken to begin to address the concerns outlined in this report. However, we stand by our findings and recommendations and reiterate the need for a strong, full-time management team to be in place to address these long-standing issues and bring stability to the Department.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS02-02: Management Within The Department Of Housing And Family Services Did Not Follow Policies And Procedures To Ensure A Proper Internal Control Structure Existed Throughout The Department**

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During the course of our audit and while conducting interviews with Department of Housing and Family Services (HFS) employees, many items were brought to the auditors' attention regarding management's failure to follow policies and procedures to ensure a proper internal control structure. Some of the items brought to our attention included the following:

- Employees were directed to move furniture on weekends and late evenings. DISMAS workers (recent parolees living in half-way housing) were used and were often alone on evenings and weekends with a female employee.
- Furniture was taken to a location outside of Metro government and has not been returned.
- Management hired employees above starting pay grade without sufficient reason. Human Resources (HR) disagreed with management's justification because the employees were not qualified for the positions and above average salaries.
- One employee, who owned a small upholstery business, was ordered by management to upholster furniture and was not reimbursed for it.
- HFS employees, having no knowledge of LiHEAP (federal program to provide heating and cooling assistance to low-income individuals), were asked to process applicants on the spot one morning for LiHEAP benefits.
- The former director's mother was paid LiHEAP benefits when she did not qualify. Also, a partial mortgage payment was made on her behalf from the Jefferson County Children's Welfare Fund, Inc. (See FINDING 08-HFS06-08)

Management of HFS clearly did not follow HFS and Metro Government policies and procedures. Misappropriation of assets can result and millions of dollars can be at risk for fraud or improper spending. Questioned costs can arise resulting in reimbursement to the federal government because staff is not qualified to oversee federal programs or not provided appropriate management oversight to insure programs are in compliance with grant requirements.

Management of HFS is expected to follow all policies and procedures established by Metro and within their department and should not use employees for tasks outside Metro's day-to-day operations. Employees should not be ordered by management to perform tasks that create a hostile work environment or lower morale among staff. Human Resource policies and procedures specify the hiring process for employees regarding pay grade and qualifications and should be followed. Employees are expected to work regular hours and perform normal job duties. Relatives of HFS staff should be treated in the same manner as any other individual applying for assistance and should not be processed by the relative working in HFS.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS02-02: Management Within The Department Of Housing And Family Services Did Not Follow Policies And Procedures To Ensure A Proper Internal Control Structure Existed Throughout The Department (Continued)**

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**Recommendation**

We recommend the new management team, as proposed in this audit, implement all policies and procedures of Metro, and within HFS, and not pressure employees to perform any tasks outside their normal job duties. We recommend that all positions and staff within HFS be evaluated to assure only qualified individuals are serving in those positions. Finally, we recommend Metro establish a hotline for employees to report work related incidents and follow up on any complaints that arise.

**Management's Response and Corrective Action Plan**

*The actions of prior management of HFS, who did not follow all policies and procedures of Metro to ensure proper internal controls, violated simple and well-known guidelines of Metro. The management who allegedly engaged in these activities is no longer with HFS or Metro. Employees are not asked to perform tasks outside of their legitimate job duties. Employees are not allowed to remove Metro property from Metro's control or to circumvent controls to give benefits to family members.*

*New management has been assigned in the Housing division, compliance unit and the HFS business office, and new responsibilities delegated to the CAP and Human Services division directors enabling review of work flow and processes to ensure that Metro policies and procedures are being followed. The departmental division managers or designee review and approve all requests for hiring, contracts and payments. Hiring recommendations, financial budgeting requests, contract processing and payment requests are reviewed by the business office management and/or the interim department director prior to submission of documents to Finance or the Department of Human Resources ("Human Resources").*

*The interim department director has evaluated staff functionality and capabilities, and staff members who were placed in unfamiliar roles under the direction of the prior management. Those who were not performing those roles well have been reassigned back to their original jobs. Morale and performance have improved as staff have been reassigned to positions for which they have the training and skills to perform.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS02-02: Management Within The Department Of Housing And Family Services Did Not Follow Policies And Procedures To Ensure A Proper Internal Control Structure Existed Throughout The Department (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Finally, there is an established grievance procedure for employees to voice grievances and to resolve conflicts within individual departments in the Metro Government Personnel Policies and Procedures manual (see section 15.2 of Metro's Personnel Policies which outlines formal grievance procedures as Attachment B). Metro has resources available for employees, including Metro Call, Internal Audit, 574-LMPD, and/or the HR employee hotline for any issues or concerns that they feel their supervisors are not addressing.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS03-03: The Department Of Housing And Family Services Has Not Corrected Multiple Prior Audit Findings**

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The Department of Housing and Family Services (HFS) did not appropriately follow up on and correct multiple prior audit findings reported in each of the previous audits dating back to merger (June 30, 2003) as well as audit findings reported by the United States Department of Housing and Urban Development (HUD) and Louisville Metro Government's Office of Internal Audit (IA). The failure of HFS management to follow-up and correct prior audit findings resulted in numerous findings in the current HFS audit.

HFS management lacked appropriate understanding of financial procedures and processes and did not provide staff with appropriate levels of oversight and direction to assure proper follow-up occurred. When a lack of basic understanding exists, the potential for material errors or omissions in the financial statements is greatly increased. In addition, the ability to properly reconcile accounts is diminished, federal expenses may not be properly drawn down or drawn down in error, and monitoring of activities within the entity and by sub-recipients may not occur, all of which can result in questioned costs to be repaid to the federal government.

The purpose of any audit, whether it is an internal or external audit, is to provide assurances or opinions on financial statements and/or federal programs, required elements, or internal controls. Typically, as part of an audit, auditors report findings to management meant to support an opinion, point out areas of concern and provide appropriate recommendations for improvement. Management is expected to follow-up on these findings, and unless the finding is no longer applicable, create a corrective action plan to eliminate the finding in future periods.

**Recommendation**

We recommend the new management team, as proposed in this audit, implement and oversee a corrective action plan to address any current audit findings. This team should be heavily involved in the day-to-day operations since many of the current findings are the result of lack of direction and oversight by previous management in HFS.

**Management's Response and Corrective Action Plan**

*Metro places great importance on audit findings, and regularly works within the organization and with our external and internal auditors to improve processes and controls based on feedback we receive through annual audit comments. We regularly report to funding sources on improvements that are made from year to year on prior audit findings. Each year since merger, Metro has made significant improvements on audit findings, and numerous comments received related to Housing (see paragraph below) and other Metro departments from past years have been corrected and processes improved related to prior audits.*

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS03-03: The Department Of Housing And Family Services Has Not Corrected Multiple Prior Audit Findings (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Six comments from the FY 05 audit were cleared in the FY 06 audit regarding timeliness of sub-recipient reimbursement, accuracy of payments to sub-recipients, HOME sub-recipient monitoring, cash draw down procedures for HOME and CDBG, and improvement of the Federal Cash Transaction report. Two comments from the FY 06 audit were cleared in the FY 07 audit regarding the improvement of HOME program accounting and reporting and the use of HOME program income.*

*HFS is committed to improving processes and will work with Finance to research and develop corrective action plans to resolve prior year and current year audit findings. Other comments from prior years that have not been corrected to date are currently being addressed, as documented in responses to previous comments in prior year and current year A-133 reports. Due to the turnover of management and personnel within the HFS Department during FY 08, progress was slowed on improving and correcting various prior year findings.*

*One of the most significant comments from previous findings that has been corrected was the timeliness of draw-downs from HUD of grant reimbursements. Beginning in FY 08, HFS and Finance made a significant transition to have the draw-down process managed by Finance. This change has improved the timeliness in which grant monies are reimbursed to Metro, as well as developed better practices for recording information into IDIS and LeAP.*

*Additionally, effective FY 08, the Finance Department has been able to reconcile the two systems within a material amount for the first year since merger, and continues to reconcile this information in FY 09. During FY 09, HFS and Finance have begun a reconciliation of previous years' information recorded in IDIS and LeAP (see additional information in response to FINDING 08-HOME/CDBG-16[-23]).*

*Metro will continue to work on corrective action plans and implementing changes outlined in those plans to correct previous and current year audit findings.*

**Auditor's Reply**

The APA's comment above is presented to recommend areas for improved management responsiveness in Metro's Department of Housing and Family Services, and to explain how numerous findings noted in previous audits continue to exist. Whereas we acknowledge the prior year Metro single audit reports referred to in management's response above indicate multiple comments were cleared, most of the internal control weaknesses were actually presented as new findings in the same report. For instance, Metro indicates six HOME and CDBG comments from the FY 05 single audit report were cleared in FY 06.

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS03-03: The Department Of Housing And Family Services Has Not Corrected Multiple Prior Audit Findings (Continued)**

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**Auditor's Reply (Continued)**

However, upon further review, it appears the FY 06 report contains four new findings noting similar weaknesses. Also, Metro identified two of four FY 06 findings that were cleared in the FY 07 report, but the other two findings were presented as new findings within that report. We believe the cleared findings cited were labeled cleared by the auditor due to changes in the audit scope, program audited, or other circumstance, but the underlying weaknesses addressed in those comments do not appear to have had adequate corrective action taken. As has been the case for HFS since the FY 04 audit, findings related to various issues within the department have been reported, not only by the Auditor of Public Accounts (FY 04 and FY 05), but also by the CPA firm contracted by Metro to perform the FY 06 and FY 07 audits.

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS04-04: Management In Department Of Housing And Family Services Did Not Follow Policies And Procedures Established For Payroll**

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During the course of our audit, and while conducting interviews with Department of Housing and Family Services (HFS) staff, we noted a lack of management understanding of basic financial process and procedures. Management also did not provide direction and oversight surrounding the day-to-day financial and programmatic operations of HFS to staff. Staff in HFS informed us that they were not aware of any policies and procedures in place concerning employee transfers, and employees were constantly moved to different positions. If policies and procedures did exist, staff in a position to update employee transfers in PeopleSoft (Metro Payroll System) either did not know about the policies and procedures or simply chose to ignore them. According to staff, because the HFS business office was often not notified, the only alternative was to create a journal voucher to correct the original posting. Staff also said HFS simply did not keep up with updating employee coding in PeopleSoft as well.

HFS utilizes three different types of timesheets, some of which provided no mechanism to show which federal program an employee was currently working on. The timesheet simply showed the number of hours worked per day.

Voluminous journal vouchers to transfer payroll charges from one fund to another, one department to another, and one cost center to another were processed because HFS management failed to ensure employee time was charged to the correct account before payroll was processed. There were \$6,103,925 in payroll related charges to federal grants, many of which could not be adequately tested. Therefore the auditors were unable to determine if these payroll charges were questionable.

Management directed employees to complete routine tasks without regard to policies and procedures established by Metro. Payroll records are not updated timely to reflect the federal program an employee is working on and timesheets (primary source of documentation for employees time charged to federal programs) don't always reflect the federal program. Since payroll represents a significant amount of expenses incurred in HFS and since most of this can be reimbursed by the Federal Government, HFS is putting millions of dollars at risk of not being drawn down timely or at all, and could also face the possibility of having to pay funds back to the federal government that have already been drawn down in appropriately. HFS accounts that Metro's reporting team relies upon to prepare financial statements may be misstated as well. Financial reports submitted to the federal government may be incorrect and it becomes difficult to reconcile federal programs in the general ledger (LeAP) to Integrated Disbursements and Information System (HUD system used to track projects and related expenses).

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS04-04: Management In Department Of Housing And Family Services Did Not Follow Policies And Procedures Established For Payroll (Continued)**

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A basic understanding of day-to-day financial and programmatic operations is expected to exist along with a strong internal control function. Organizational policies and procedures, if in place, should be followed. Examples include timely coding of employees to the payroll system and limited use of journal vouchers for corrections, period ending adjustments and non-routine activities. Routine reconciliations of the general ledger to outside systems are also expected to occur.

**Recommendation**

We recommend the new management team, as proposed in this audit, immediately focus on reviewing and implementing payroll policies and procedures for all staff to follow. Where policies and procedures do not currently exist, these should be developed immediately. Staff should be immediately updated in the PeopleSoft system so the use of journal vouchers can be limited to non-routine activities. Timesheet forms should be limited to one that enables the employee to code which program he or she is working on, signed by the employee and the immediate supervisor. We also recommend HUD perform a review of all payroll charges to determine whether any funds should be reimbursed to the federal government.

**Management's Response and Corrective Action Plan**

*Metro's payroll policies and procedures specifically require support for payroll charges and appropriate approval from management to process these expenditures. Metro is reviewing time sheet procedures related specifically to HFS and opportunities for electronic timesheets that will allow for the department to track employee time to the appropriate grant program in a more efficient manner and will provide a consistent process for the entire department.*

*Additionally, Metro has completed an analysis of payroll expenditures for FY 08. The following procedures were performed:*

*Metro confirmed that all payroll charges processed per the PeopleSoft system tied without material exception to total payroll expenditures reflected in the general ledger (LeAP).*

*Metro compared total payroll expenditures charged to the general fund and the special revenue fund (grant-related funds) as a percentage of total for FY 08 and FY 07, noting that total charges to each fund appeared consistent with prior years.*

*Metro compared payroll charges per program for CDBG, HOME, SPC, Lead, Summer Foods, LIHEAP, and CSBG as a percentage of total payroll for FY 08 compared to prior years. We found that these percentages were consistent for FY 08.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS04-04: Management In Department Of Housing And Family Services Did Not Follow Policies And Procedures Established For Payroll (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Based on the review of payroll expenditures, Metro does believe that payroll expenditures are appropriate and have been accurately reflected in the financial statements.*

*New management of the business office has been assigned to focus on training of staff to ensure understanding of the payroll policies and procedures. In addition, the business office is working with the division directors (CAP, Human Services and Housing) to communicate the appropriate procedures for transferring or hiring staff and recording appropriate payroll expenditures to grant programs.*

*The department position control report has been reviewed and staff have been moved to their respective areas of responsibility. In addition a secondary review has been done by the division directors to ensure that all staffing changes or transfers have been updated to ensure that charges are posting correctly to the general ledger in FY 09. This enables correct draw down information to be obtained for respective grants.*

*The use of journal entries to correct payroll data has been reduced dramatically as information is being updated in advance of processing payroll to ensure that charges are being posted to the correct general ledger coding. There have been correcting journal entries processed for the current fiscal year, but these entries are being reviewed and processed with detailed backup documentation and system data is being updated so that the entries are being done only as a corrective exception. A schedule of routine transfers of department staff from one unit activity or active grant to another is being developed so that transfers will be requested in a timely fashion with system data being updated prior to payroll processing.*

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS05-05: The Schedule Of Expenditures Of Federal Awards Did Not Agree With The Accounting System**

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Federal expenditures per the Department of Housing and Family Services's (HFS) Schedule of Expenditures of Federal Awards (SEFA) do not agree with the expenditures for these federal programs per the LeAP accounting system (the accounting system used by Metro Government). Expenditures per the SEFA for the Summer Food Service Program for Children (CFDA #10.559) total \$1,455,158, while the LeAP detail totals \$1,714,198, a difference of \$259,040. There were several duplicate deferred revenue postings that created a \$259,040 overstatement of revenues that was not discovered until November 2008, at which time Finance corrected. The error resulted in HFS spending \$259,040 more than the federal funds available for this program. Finance decreased the expenditures on the SEFA by the \$259,040; however, they did not make any changes to the trial balance or in LeAP to reflect the decrease in expenditures within the program and the expenditures being picked up by the General Fund.

Expenditures per the SEFA for Community Development Block Grants (CDBG) (CFDA#14.218) totaled \$6,853,317, while LeAP detail totals \$7,583,400, a difference of \$730,083. According to Finance, this difference is attributed to program income, and was applied to total expenditures, but not to federal expenditures. Federal grant regulations require program income to be spent before federal funds are drawn down. In addition, the amount of program income that is spent should be considered a federal expenditure and reported on the SEFA.

Expenditures per the SEFA for HOME Investment Partnership Program (HOME) (CFDA#14.239) totaled \$2,021,419, while LeAP detail totals \$2,689,955, a difference of \$668,536. According to Finance, this difference is attributed to program income that was deferred from fiscal year 2007. This amount should have been spent in 2007 and included on the 2007 SEFA. As stated before, federal grant regulations require program income to be spent before federal funds are drawn down.

**Recommendation**

We recommend that HFS and Finance no longer defer program income, as federal grant regulations require program income to be spent before any federal funds are drawn down. We also recommend that Finance include any program income spent as a federal expenditure on the SEFA.

**Management's Response and Corrective Action Plan**

*Metro places great importance on the complete and accurate compilation of financial information that is presented in the Schedule of Expenditures of Federal Awards ("SEFA") and all other financial reports. Financial information provided in the SEFA and other financial statements does come directly from LeAP, and can be reconciled to the general ledger. The differences noted in this comment were appropriately explained and do not represent a misstatement of financial information.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS05-05: The Schedule Of Expenditures Of Federal Awards Did Not Agree With The Accounting System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The difference in revenue information reflected for the Summer Food program in this comment was an issue that was found by Finance and corrected prior to the auditor's review. However, during the audit process (after year-end close), Metro does not continue to book transactions to the year that has been closed. The general ledger remains closed, until completion of the audit and then any adjustments found in preparation for the audit or during the audit are booked upon completion of review. Thus, there was no overstatement of revenues in the general ledger related to this program.*

*Metro does not agree that the examples cited in this comment for CDBG and HOME differences are valid. Effective July 1, 2007, the Grants Management division of Finance implemented policies and procedures with regard to appropriate management of HUD draws and program income. These policies ensure that program income for the CDBG and HOME programs are spent before entitlement reimbursements are requested.*

*Program income revenues are reviewed twice a month in conjunction with each CDBG and HOME draw. The amount of program income earned for the period is then applied to federal expenditures for the same time period. A reimbursement request is then submitted for the amount of remaining expenditures not covered by program income. Program income documentation is maintained for every reimbursement request to support our practice of adhering to federal requirements on program income spending.*

*It is important to note that the FY 07 deferred program income situation referenced in the finding was an isolated situation. Program income was deferred for a very specific purpose related to the Partridge Point Apartments project, and this was the only exception noted. There have been no other deferred program income situations in FY 08 or FY 09.*

*Per OMB Circular A-133, Metro reports federal expenditures as the grant expenditure that is reimbursed by federal dollars. In order to identify this amount, total grant expenditures are reduced by the amount of program income that covers some portion of the expenditure and reduces the amount requested for reimbursement. Previous audits have found this method of reporting federal expenditures on the SEFA to be in accordance with A-133 guidelines, including audits conducted by the APA during FY 04 and 05.*

**Auditor's Reply**

As part of an audit of a governmental entity that includes a Schedule of Expenditures of Federal Awards (SEFA), the auditor is required to reconcile the SEFA to the underlying accounting records (LEAP), and include as an audit finding when the two do not reconcile.

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS05-05: The Schedule Of Expenditures Of Federal Awards Did Not Agree With The Accounting System (Continued)**

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**Auditor's Reply (Continued)**

For the Summer Food Program, once the error was discovered, it was appropriately removed as an expenditure on the SEFA, however it was not appropriately corrected in LEAP during the course of the audit.

For the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME), program income that was generated and subsequently spent from each grant was inappropriately removed as an expenditure on the SEFA. OMB Circular A-133, Subpart B-Audits, Section 205-Basis for determining Federal awards expended, identifies the receipt or use of program income as an activity to be factored into determining the basis for federal expenditures.

As presented in the 2005 audit, the APA did include a finding related to the SEFA for the year that specifically makes reference to program income. That finding is referenced as 05-Metro-4.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HOME11-06: The Department Of Housing And Family Services Lacks Ethical Guidelines Which Resulted In Conflicts Of Interest**

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This finding is a significant deficiency/material weakness relating to internal controls and/or material instance of noncompliance/other noncompliance of a major federal award program. See Part "C. Findings and Questioned Costs - Major Federal Awards Program Audit," FINDING 08-HOME11-19 for discussion of this finding.

**FINDING 08-SFSPC40-07: The Department Of Housing And Family Services Overspent Summer Food Service Program For Children Funds By \$259,040 Due To Accounting Records That Were Not Properly Reconciled**

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This finding is a significant deficiency/material weakness relating to internal controls and/or material instance of noncompliance/other noncompliance of a major federal award program. See Part "C. Findings and Questioned Costs - Major Federal Awards Program Audit," FINDING 08-SFSPC40-47 for discussion of this finding.

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

*Significant Deficiencies Relating to Internal Controls*

**FINDING 08-HFS06-08: The Department Of Housing And Family Services Did Not Notify Department Of Finance Of All Bank Accounts Under Their Control**

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The Department of Housing and Family Services (HFS) maintained a bank account without following Finance policy. The account is the Jefferson County Children's Welfare Fund, Inc., from which part of a mortgage payment for the former Director's mother was improperly paid. (See FINDING 08-HFS02-02). Since Finance was not given information on the Welfare Fund, staff from Finance were not able to monitor the account and record the transactions associated with this account in Metro's accounting system (LeAP).

Finance policy requires notification from all Departments for any bank account associated with the Department. This policy was established to ensure all account transactions are accounted for and recorded on Metro's financial statements.

We also became aware of another account under the control of HFS that belongs to the Landbank Authority, which is a joint venture between the Louisville/Jefferson County Metro Government, Jefferson County Public Schools, and the Commonwealth of Kentucky, for which Metro is the record keeper. The auditors made several inquiries as to whether the Landbank Authority has had an audit, and the auditors were told that it had not, though it handles numerous parcels of land for sale and the HFS Executive Director has discretion over the transactions.

**Recommendation**

We recommend HFS notify Finance of any bank accounts under the Department's control so that all transactions are recorded appropriately. We also recommend that Metro work with the Jefferson County Public School System and the Commonwealth of Kentucky to have the Landbank Authority audited to ensure the funds and assets of the Authority are appropriately accounted for.

**Management's Response and Corrective Action Plan**

*HFS has now notified Finance of all bank accounts under their control in accordance with Metro's cash policies and procedures.*

*This finding makes note of the Jefferson County Children's Welfare Fund, Inc., that was held in Human Services. At the December 3, 2008 Board of Director's meeting the assets of the fund were donated to Metro and the fund was dissolved. Subsequent to the meeting the funds have been transferred to Finance and Articles of Dissolution have been filed with the Kentucky Secretary of State by the Jefferson County Attorney's Office. These funds have been accepted by the Metro Council as a gift to be used for children's welfare through emergency financial assistance. There are no other accounts in Human Services outside the Metro financial system.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HFS06-08: The Department Of Housing And Family Services Did Not Notify Department Of Finance Of All Bank Accounts Under Their Control (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The second account under control of HFS is an account which belongs to the Land Bank Authority and is a joint venture of three entities. HFS will work with Finance, the Jefferson County Public School System and the Commonwealth of Kentucky to ensure that an audit is done on this account to verify that funds and assets of the Land Bank Authority are appropriately accounted for in the financials.*

*See also the response to FINDING 08-HFS-02[-02] regarding the specific payment referenced in this comment. HFS will not open any accounts in the future without following the established Finance policy. Metro policy is very specific on coordination of cash accounts with departments to ensure that all transactions are appropriately accounted for in the general ledger.*

*In order to communicate the importance of coordinating all Metro bank accounts through Finance, Metro issued policies and procedures with regard to bank accounts effective February 2006. The policy states that any Metro department that has a need to establish a new or separate bank account must submit a written request to the cash management division of Finance. The request must outline the nature and the need for the bank account.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**FINDING 08-HOME07-09: The Department Of Housing And Family Services Did Not Provide Written Policies And Procedures For HOME Report Preparation And Ensure Knowledgeable Supervisory Review Of Reports**

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This finding is a significant deficiency/material weakness relating to internal controls and/or material instance of noncompliance/other noncompliance of a major federal award program. See Part "C. Findings and Questioned Costs - Major Federal Awards Program Audit," FINDING 08-HOME07-15 for discussion of this finding.

**FINDING 08-HOME/CDBG15-10: The Department Of Housing And Family Services Did Not Ensure That Staff And Management Understand Federal Reporting Requirements Regarding Subrecipients**

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A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The Subrecipient List with the Schedule of Expenditures of Federal Awards (SEFA) is not complete.

Finance relies on the Department of Housing and Family Services (HFS) to provide relevant information to be reported on the SEFA. HFS does not have staff knowledgeable enough about federal reporting requirements to ensure that all information is reported accurately. One subrecipient of the HOME grant was not included on the SEFA provided to auditors and the list of subrecipients provided to auditors by HFS for the CDBG grant did not agree to the list of subrecipients on the SEFA.

HFS should ensure that staff responsible for providing information to Finance for federal reporting are knowledgeable about reporting requirements and understand and apply the criteria for determining subrecipients. Management should also understand the requirements and should review information for accuracy and ensure completeness.

**Recommendation**

We recommend that HFS provide training to staff and management responsible for federal reporting to ensure that accurate and complete information is reported on the SEFA.

**Management's Response and Corrective Action Plan**

*HFS recognizes the importance for grants staff and management to understand the federal reporting requirements regarding sub-recipients. There have been no previous A-133 comments for Metro related to the compilation of sub-recipients for disclosure in the SEFA to indicate an overall lack of understanding of these requirements. Additionally, it is important to note that the sub-recipient listing for the final FY 08 audit is complete and accurate.*

*HFS staff and management do understand the federal reporting requirements to include any sub-recipient that received federal funding from HFS during the fiscal year in the SEFA. Policies and procedures have been established to provide sub-recipient information to Finance each year for disclosure in the SEFA.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

*Significant Deficiencies/Material Weaknesses Relating To Internal Controls And/Or  
Material Instances Of Noncompliance Or Other Reportable Matters*

**FINDING 08-HFS01-11: Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error**

Federal Program: CFDA # All Major Programs Audited  
Federal Agency: U.S. Department of Housing and Urban Development  
U.S. Department of Health and Human Services  
U.S. Department of Agriculture  
Compliance Area: All  
Pass-Through: Various  
Questioned Costs: \$0

This finding is a material weakness and/or significant deficiency for internal control over financial reporting. See Part "B. Findings - Financial Statement Audit," FINDING 08-HFS01-01 for discussion of this finding.

**FINDING 08-HFS02-12: Management Within The Department Of Housing And Family Services Did Not Follow Policies And Procedures To Ensure A Proper Internal Control Structure Existed Throughout The Department**

Federal Program: CFDA # All Major Programs Audited  
Federal Agency: U.S. Department of Housing and Urban Development  
U.S. Department of Health and Human Services  
U.S. Department of Agriculture  
Compliance Area: All  
Pass-Through: Various  
Questioned Costs: \$0

This finding is a material weakness and/or significant deficiency for internal control over financial reporting. See Part "B. Findings - Financial Statement Audit," FINDING 08-HFS02-02 for discussion of this finding.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**FINDING 08-HFS03-13: The Department Of Housing And Family Services Has Not Corrected Multiple Prior Audit Findings**

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Federal Program: CFDA # All Major Programs Audited  
Federal Agency: U.S. Department of Housing and Urban Development  
U.S. Department of Health and Human Services  
U.S. Department of Agriculture

Compliance Area: All  
Pass-Through: Various  
Questioned Costs: \$0

This finding is a material weakness and/or significant deficiency for internal control over financial reporting. See Part "B. Findings - Financial Statement Audit," FINDING 08-HFS03-03 for discussion of this finding.

**FINDING 08-HFS04-14: Management In Department Of Housing And Family Services Did Not Follow Policies And Procedures Established For Payroll**

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Federal Program: CFDA # All Major Programs Audited  
Federal Agency: U.S. Department of Housing and Urban Development  
U.S. Department of Health and Human Services  
U.S. Department of Agriculture

Compliance Area: All  
Pass-Through: Various  
Questioned Costs: \$0

This finding is a material weakness and/or significant deficiency for internal control over financial reporting. See Part "B. Findings - Financial Statement Audit," FINDING 08-HFS04-04 for discussion of this finding.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME07-15: The Department Of Housing And Family Services Did Not Provide Written Policies And Procedures For HOME Report Preparation And Ensure Knowledgeable Supervisory Review Of Reports**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Matching, Level of Effort, Earmarking and Reporting  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) must submit an annual report to the United States Department of Housing and Urban Development (HUD) detailing the matching contribution for HOME funds. HFS must provide matching funds of not less than twenty-five percent of the funds drawn from the federal account for the fiscal year.

The 2007 HOME Match Report contained an error in the calculation of total match for the year. While the error does not cause a significant under or overstatement of matching, it is indicative of an underlying problem. The Department of Housing and Family Services (HFS) does not have written policies and procedures for report completion and there is no supervisory review of reports once completed. Because of this, HFS could submit erroneous reports to HUD, and not be in compliance with matching requirements.

Federal reports should be completed by staff knowledgeable of grant requirements. There should be policies and procedures in place directing staff in the completion of necessary reports. A supervisor knowledgeable of grant requirements should review reports for accuracy before submission.

**Recommendation**

We recommend that HFS develop comprehensive policies and procedures covering all aspects of program management for HOME grants, and that management knowledgeable of grant requirements review reports for accuracy and completeness before submission.

**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of accurate reporting. A review of staff functions and capabilities has been conducted to ensure the appropriate resources have been allocated to provide knowledgeable compilation and review of reports. Many staff members, who had previously been reassigned to other divisions within the department, have been returned to the HOME program to ensure that expertise is retained and properly utilized.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME07-15: The Department Of Housing And Family Services Did Not Provide Written Policies And Procedures For HOME Report Preparation And Ensure Knowledgeable Supervisory Review Of Reports (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The newly created compliance unit is charged with identifying all reporting requirements under HFS state and federal grant programs and ensuring that those reports are completed accurately and filed timely. One of the specific responsibilities of this unit will be the compilation of the HOME Match report. Housing management will be responsible for verifying that reports are complete and accurate prior to submission to HUD.*

*This unit will also assist program staff in drafting grant applications, determining eligibility of projects for grant funding and adhering to program and reporting requirements for the expenditure of grant funds. In addition, the unit will monitor outside recipients for compliance with federal guidelines, manage the IDIS reporting system and assist with other grant related compliance issues as needed.*

*Management has developed and will continue to review the policies and procedures covering all aspects of program management for HOME grants.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME08-16: The Department Of Housing And Family Services Did Not Follow The Grant Requirement To Spend Home Program Income Before Drawdown Of Entitlement Funds**

Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Program Income  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) loans federal funds to eligible citizens for home rehabilitation. Based on the client's income, payments are made by the clients to HFS to repay a portion of these loans. This is considered program income generated by this federally funded project. Program income generated by the HOME program totaling \$709,850 was deferred from fiscal year 2007 to fiscal year 2008 to be used for a specific project, Partridge Point II Apartments.

As payments that qualify as program income were received, the Department of Housing and Family Services (HFS) would direct Finance, by use of journal vouchers, to move the program income to "holding" accounts to accumulate funds for the specific project. HFS did not follow the HOME grant requirement requiring the use of program income before drawdown of entitlement funds.

The United States Department of Housing and Urban Development (HUD) regulations regarding program income require that program income must be used before additional HOME allocation funds are drawn down. A participating jurisdiction may not draw down HOME allocation funds while allowing program income to accumulate in its local account. Available program income must be used to pay the next eligible program cost.

**Recommendation**

We recommend that HFS follow HUD regulations for the HOME grant for the use of program income. HFS should not direct Finance to bypass the correct recording of program income in order to accumulate program income for specific projects.

**Management's Response and Corrective Action Plan**

*Metro policy requires that program income is expended prior to reimbursement of entitlement funds being requested in accordance with HUD regulations. See the response for FINDING-08-HFS-05[-05] for additional detail on related policy and procedure.*

*The deferring of program income for the Partridge Point Apartments project was a one time occurrence. It is not the practice of HFS to accumulate program income in a local account. HFS will continue to follow HUD regulations regarding the use of program income and apply program income to the next eligible program cost.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME09-17: The Department Of Housing And Family Services Lacks Internal Controls Over The Use Of HOME Funds For Down Payment Assistance**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Eligibility  
Pass-Through: Not Applicable  
Questioned Costs: \$0

There is a lack of segregation of duties and lack of adequate supervisory review over the Down Payment Assistance Program. One employee performs all functions related to eligibility determination and document processing without adequate supervisory review. This person is knowledgeable about the grant requirements and has strong organizational skills. However not having anyone review the files before processing increases the risk that errors or non-compliance could occur and not be detected.

Having one person perform all tasks for this program could cause material error, fraud or noncompliance. The Department of Housing and Family Services (HFS) should either have duties segregated between several knowledgeable employees or have a supervisor that is knowledgeable of grant requirements to ensure material errors and/or noncompliance are not made.

**Recommendation**

We recommend that another employee review eligibility determinations to ensure accuracy and that the program supervisor review each file for correct eligibility determination and compliance with program requirements before funds are released.

**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of segregation of duties under any program or process. The structure of the Down Payment Assistance Program is being changed to provide additional oversight of the application and eligibility determination process. These changes should be in place no later than the end of February 2009.*

*Income eligibility for all Housing programs, including the Down Payment Assistance Program, will be verified by the intake staff. Eligibility of the structure being purchased will be verified by rehabilitation ("rehab") advisors under the supervision of the rehab supervisor. The various eligibility determinations will be reviewed and confirmed by the assistant division director.*

*Other program requirements and document processing will be completed by the Down Payment Assistance program manager. The program manager will work with clients from the application process through loan closing. The assistant division director will authorize payment of any benefits approved for the Down Payment Assistance Program.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG/LEAD10-18: The Department of Housing and Family Services Lacks Oversight And Accountability For The Investor Loan Database**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
CFDA #14.900 - Lead-Based Paint Hazard Control in Privately-Owned Homes  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Program Income  
Pass-Through: Not Applicable  
Questioned Costs: \$0

In addition to auditor documentation of findings in this area, please refer to the Investor Loan Program Delinquent Loans report written by the Louisville Metro Office of Internal Audit in October 2007. The following items were noted:

- There is a lack of internal controls over the tracking and collection of payments for the investor loan program.
- There is a lack of adequate segregation of duties or knowledgeable supervisory review to ensure that material errors or fraud are not committed. One person is responsible for tracking, monitoring, and collection activities for these loans, with little support or oversight from management.
- The outstanding loans are tracked by the Department of Housing and Family Services (HFS) with an excel spreadsheet. This type of tracking system is labor intensive and not conducive to monitoring notifications or collection activities.
- The Department of Finance has a separate database in use to track loans. This database does not agree with the loan information kept by HFS. Therefore, it is impossible to tell exactly how many loans are outstanding, the terms of each loan, and how much money HFS should be receiving as program income from these loan payments.
- There are no written policies and procedures to provide guidance to staff administering this program.
- Collection activity is irregular and inconsistent. With other job duties taking priority, the person responsible for this area has not been able to contact delinquent clients regularly.
- HFS has not consistently applied loan terms and some loans were processed with much longer periods of affordability than others, even though the circumstances were similar.
- Kentucky Housing Corporation services a group of loans for HFS. The contract with Kentucky Housing Corporation has expired and has not been renewed. The loans serviced by Kentucky Housing Corporation are not being monitored for period of affordability requirements.
- There was a loan outstanding for a HOME loan assumed by the Executive Administrator of the HOME grant's father and the Assistant Director of Housing's father for approximately \$60,000 that was not being collected or monitored.

Program Income for these grants could be adversely affected if collection activity is not undertaken. HFS should have an accurate accounting of all repayable investor loans and should provide for regular monitoring of these loans and regular collection activity for delinquent loans. Management should be knowledgeable about this area and provide strong supervisory oversight.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG/LEAD10-18: The Department of Housing and Family Services Lacks Oversight And Accountability For The Investor Loan Database (Continued)**

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**Recommendation**

We recommend that HFS implement the corrective action plan submitted by management in response to an Internal Audit Report dated October 2007. These actions include:

- Secure the current database
- Determine sufficiency of current database
- Consistent collection activities for delinquent loans
- Determine the status of all investor loans

In addition, we recommend that HFS devote adequate staff to complete these tasks and ongoing tasks in this area. Management should provide supervisory review of activities and technical support for staff.

**Management's Response and Corrective Action Plan**

*HFS places great importance in securing appropriate oversight and accountability for the Investor Loan Database. Recommendations from the 2007 Internal Audit report are being addressed as Metro attempts to implement new loan software (Oracle Loans).*

*There is only one loan database for tracking and monitoring HUD loans. Metro has reviewed options for loan collections (including KHC) for Housing and other Metro agencies. Oracle loans was purchased in FY 08 and Metro is working to implement this loan software. Written policies and procedures for guidance on administering this program will be developed and collection activity over delinquent loans will be reviewed.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME11-19: The Department Of Housing And Family Services Lacks Ethical Guidelines Which Resulted In Conflicts Of Interest**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: All  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Executive Administrator of the HOME program within the Department of Housing and Family Services (HFS) has a conflict of interest. The Executive Administrator's father had assumed and was responsible for a HOME loan under this program. While the balance of the loan has been paid, the property must still follow guidelines established by the grant and the property would be subject to monitoring during the period the requirements are to be met.

The Executive Administrator did not disclose to management or to the United States Department of Housing and Urban Development (HUD) the fact that his father had assumed a HOME loan that was under his direct supervision. When management has direct supervision over an area where a family member could benefit, this creates a situation where material error, fraud or noncompliance could occur and not be detected.

Management should endeavor to prevent a situation where a HFS employee is in direct supervision over an area where a family member could benefit. HUD regulations prohibit conflicts of interest in CFR 92.356 - *No persons...who exercise or have exercised any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision-making process or gain inside information with regard to these activities, may obtain a financial interest or benefit from a HOME-assisted activity.*

In August 2008, the Office of Internal Audit for the Louisville Metro Government issued a report based on an audit they performed on Louisville Metro's ethics program. The report concluded that Louisville Metro's ethics program does not meet all of the requirements of an effective ethics program. Some of the areas of concern are that Louisville Metro does not have a comprehensive ethics program, they do not have a high-level person designated as the Ethics Officer, ethics training is not a requirement for employees, and there is not a centralized tool for employees to utilize to report unethical behavior. Human Resources has issued corrective action plans in response to this audit, which will require cooperation from each Department within Louisville Metro Government.

**Recommendation**

We recommend the new management team, as proposed in this audit, adopt a policy to ensure that conflicts of interest are prevented from occurring. We also recommend HFS work in conjunction with Human Resources to put an effective ethics plan in place.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME11-19: The Department Of Housing And Family Services Lacks Ethical Guidelines Which Resulted In Conflicts Of Interest (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS does not lack ethical guidelines. Adopting policies regarding ethics will not always prevent conflicts of interest from occurring. Policies regarding conflicts of interest are there to guide a person when a conflict of interest arises. HFS employees have such guidance under a number of existing policies.*

*Metro's Ethics Ordinance (Attachment C; sections 21.01 through 21.09) provides conflict of interest guidelines and financial reporting requirements that apply to Metro Officers. Any Metro employee may request an advisory opinion from the Ethics Commission.*

*The Louisville Metro Personnel Policies Conflict of Interest provision applies to all Metro employees (See Attachment D; Personnel Policies, section 1.7 Conflicts of Interest). If an employee has a question about whether an activity is governed by the Personnel Policies' Conflict of Interest provision, the employee may contact Human Resources for guidance.*

*HFS employees are also guided by the conflict of interest provisions of the numerous federal and state grants administered by HFS. As a part of the new Compliance Unit, employees may contact the compliance officer to assist them in determining whether a particular activity would present a conflict of interest as found under the Ethics Code, the Personnel Policies or the specific grant requirements. If such conflict exists, then the employee may, where allowable (see below), request the appropriate waiver of the conflict.*

*Federal laws and policies allow for the waiver of a conflict when the facts justify it. In the particular case cited in this finding, the HFS employee was unaware when he was hired in March of 2008 that his father had purchased an investment property which included the assumption of a HOME loan some seven years earlier. He first learned of his father's loan shortly before it became public knowledge. A request for a waiver of the conflict was made to HUD and granted (see letter included as Attachment E).*

*Recently all HFS employees received the attached Conflict of Interest Procedures (Attachment F) to refresh their understanding of the responsibilities of public employees to avoid both a conflict of interest as well as the appearance of a conflict of interest. Each division of HFS will address the appropriate way to document employee/applicant relationships, which may present a conflict of interest. Conflict of interest procedures will then be followed in any case of a conflict of interest, or the appearance of a conflict of interest under the Ethics Ordinance, the Personnel Policies or the applicable grant guidelines.*

**Auditor's Reply**

Although Metro has several ethics guidelines in place, in order to be effective, all Metro employees must be aware of, and adequately trained on those guidelines.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME12-20: The Department Of Housing And Family Services Lacks Internal Controls Over Administration Of The Tenant Based Rental Assistance Program**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development

Compliance Area: Special Tests and Provisions

Pass-Through: Not Applicable

Questioned Costs: \$0

There were two Tenant Based Rental Assistance (TBRA) cases processed where a conflict of interest existed. One was a case for a Department of Housing and Family Services (HFS) employee's brother. The case was processed without the HFS Supervisor being notified. The HFS employee worked on her brother's case, evidenced by her signature in his file. The other instance was a case where the owner of a referral agency also owned the apartment building where TBRA clients were advised to live. This apartment building also housed dozens of convicted sex offenders. The TBRA clients are persons who are either homeless or on the verge of being homeless, often with small children. The owner of this building benefited unduly by filling her empty apartments with TBRA clients, where rent is paid by the Metro government with HOME grant funds.

Conflicts of interest are prohibited by federal regulations and are described in federal regulations as someone who exercises any functions or responsibilities with respect to activities assisted with HOME funds, or are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or benefit from a HOME-assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.

There were two cases processed where rent paid was more than fair market value for the area. Federal regulations require that HFS consistently apply a maximum subsidy calculation for TBRA. HFS's policy is to not pay more than the fair market value of rentals in the area, unless significant improvements have been made to the apartment to justify the increased amount. Although the fact that rent was above fair market value was documented in the files, the HFS Supervisor did not notice this when reviewing the files. In each case, there was nothing documented in the file to justify paying rent above fair market value for the area. In one case, the apartment actually failed the initial housing inspection due to improper wiring, broken windows, dirt and mold. This apartment is in the building mentioned above where the second conflict of interest is documented.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME12-20: The Department Of Housing And Family Services Lacks Internal Controls Over Administration Of The Tenant Based Rental Assistance Program (Continued)**

Internal controls over TBRA grant administration are weak. There is insufficient staff to ensure that all grant requirements are met. The HFS Supervisor must review each file for correctness and completeness along with many other administrative duties for several grants. HFS staff use an excel spreadsheet to track case information and payments. Cases could be processed that do not meet eligibility requirements, that have a rent higher than fair market value, that provide a third party with undue benefit, or that have a material error or fraud.

**Recommendation**

We recommend the following:

- HFS devote sufficient staff to administration of the TBRA program to ensure that services are provided in compliance with applicable federal regulations.
- HFS implement a computerized tracking system for TBRA cases.
- HFS require referral agencies and landlords to disclose all relationships to them.
- HFS implement a policy and notify staff of the steps to follow when a family member of an HFS employee wants to apply for services.

**Management's Response and Corrective Action Plan**

*Internal control over the administration of the Tenant Based Rental Assistance ("TBRA") does exist. Control processes are outlined in Attachment G related to this program.*

*There were two examples of conflict of interest mentioned in the comment. In the first example, it is important to note that the employee who processed her brother's case appropriately turned the file over to her supervisor for approval (see attached form as Attachment H). In the second example, the referral agency owner also owned an apartment building where TBRA clients were advised to live. This agency is no longer being used by Metro Government for this or any other assistance program.*

*HFS has taken several steps toward the continued improvement of internal controls over the TBRA program. In December 2008, two employees were transferred to the TBRA team to assist in processing additional clients. To increase accountability, the TBRA payments are being entered into the CARE data system which allows for computerized tracking of TBRA cases. In addition, landlords and referral agencies are required to disclose relationships with Metro employees and/or to sign specific conflict of interest statements depending upon the program guidelines.*

*HFS does have a policy in place for staff to take steps to follow when a family member of an HFS employee wants to apply for services (see Attachment F, conflict of interest procedures and response to FINDING 08-HOME-11[-19]).*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME12-20: The Department Of Housing And Family Services Lacks Internal Controls Over Administration Of The Tenant Based Rental Assistance Program (Continued)**

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**Auditor's Reply**

Although written control procedures exist for Tenant Based Rental Assistance, they were not followed during fiscal year 2008, as noted in the finding.

The conflict of interest example where the employee processed her brother's case violates Louisville Metro Government's Conflict of Interest policy 1.7(9) which states "No one shall act as officer or agent for the Louisville Metro Government or any agency of the Louisville Metro Government in the transaction of any business with one's self or any family member..." thus, this employee should not have worked on her brother's case at all.

In addition, in an interview with the supervisor of this employee, the supervisor told the auditor that she was not made aware of the relationship between the employee and applicant until after the case was processed.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME13-21: The Department Of Housing And Family Services Lacks Internal Controls Over The Home Repair Program**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program

Federal Agency: U.S. Department of Housing and Urban Development

Compliance Area: Eligibility

Pass-Through: Not Applicable

Questioned Costs: \$11,000

The Home Repair Program is a federally funded program used to fund emergency home repairs and neighborhood revitalization. This program has insufficient supervisory oversight and review. The following were noted in review of Home Repair files:

- Winning bids and in-house estimates are very close, while other bids are much higher.
- When the winning bid is low and is close to in-house estimate, change orders increase the final cost of the project to nearly the same amount as the other bidders.
- Rehab Specialist creates invoices for contractors from information called in over the phone, and then approves those invoices for payment.
- A shed was built for a homeowner costing \$11,000. This is not an allowable use of HOME funds and seems an excessive amount to pay for the structure. The in-house estimate for demolition and construction of the structure was \$6,500.
- Only eight contractors were used from a list of 42 on the Approved Contractors List. With a backlog of 400 homes waiting for repairs, this is not efficient administration of the Home Repair program.
- Some of the contractors subsequently subcontract to other contractors that are used regularly.
- One file contained a note that management had refused to sign. The case was processed anyway and work completed.

During fiscal year 2008, management did not fill the Program Manager position over the Home Repair Program, leaving the Rehab Specialist to make all decisions on these cases. The Executive Administrator for HOME told the auditor he did not know much about the grant requirements and relied on the Rehab Specialist to make informed decisions regarding projects.

There is a significant risk that fraud or material noncompliance could occur in the Home Repair Program due to lack of segregation of duties and lack of knowledgeable management oversight. The Department of Housing and Family Services (HFS) should ensure proper segregation of duties and oversight by knowledgeable management in each program. In programs involving contractors, federal audit guidelines require auditors to ensure management has controls in place to prevent risks arising from conflicts-of-interest, e.g., kickbacks, related party transactions, bribery.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME13-21: The Department Of Housing And Family Services Lacks Internal Controls Over The Home Repair Program (Continued)**

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**Recommendation**

We recommend that HFS implement strong management oversight in the Home Repair Program, including reinstatement of a Program Manager. The HOME Executive Administrator should be provided additional training so that proper supervision takes place.

**Management's Response and Corrective Action Plan**

*Internal controls are in place for the Home Repair Program. Upon further review of the issues raised in this comment, management found no evidence that fraud or material noncompliance occurred due to lack of segregation of duties or lack of knowledge.*

*The assistant division director (formerly titled the executive administrator for HOME) was and is familiar with HOME grant requirements, although the finding indicates otherwise. The assistant division director did not have an extensive background in residential rehabilitation and relied heavily on the rehab advisors for their expertise in rehab.*

*In November, a rehab supervisor was hired who has over 30 years experience in residential rehab. However, even though during a portion of FY 08 no rehab supervisor was in place, the Home Repair Program was not without internal controls. Sealed bids are required for all rehab jobs which were opened publicly, and the approval of such bids and change orders were never in the hands of only one person.*

*The following outlines responses to the particular items noted in the auditor's review of the Home Repair Files:*

*In-house cost estimates are prepared by rehab advisors using the Home-Tech Information Systems, Inc., a residential cost estimation manual. If contractors prepare their bids using the same cost resource information, it is probable that their bids would approximate in-house bids. The Housing division has instituted a policy whereby the rehab supervisor reviews bids which are more than 25% higher or lower than in-house estimates. The following procedures will be incorporated into our current guidelines:*

*All change orders must have the cost compared to an in-house cost estimate.*

*No change order will be approved for items not considered essential.*

*All change orders must be approved and signed by the homeowner, rehab advisor, rehab supervisor, and assistant division director.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME13-21: The Department Of Housing And Family Services Lacks Internal Controls Over The Home Repair Program (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Based on our review, a Metro employee did not create and approve invoices for contractors from information called in over the phone. Pay requests are signed by the owner, contractor, rehab advisor, and rehab supervisor, with all payments approved by the assistant division director.*

*The storage shed paid for as a part of an overall repair job and was not eligible for HOME funds, although it may be eligible for reimbursement by other funds. HFS is reviewing the appropriate adjustment of these expenditures. The cost of the repair to the shed was competitively bid and the job was awarded to the lowest overall bidder.*

*The reason there is a waiting list for repairs is not a result of only using eight contractors. Of the 40 contractors currently on the approved contractors list, only 11 are general contractors and the other 29 deal with specialties (plumbing, electric, HVAC, or lead paint). Eight of the 11 were involved in the Home Repair Program during the audit period.*

**Auditor's Reply:**

The fact that the executive administrator of the HOME grant did not have "an extensive background in residential rehabilitation and relied heavily on the rehab advisors" is the cause for concern and the primary reason for the finding in this program. Lack of adequate segregation of duties and knowledgeable management oversight coupled with the high inherent risk in this type of program creates a significant deficiency in internal controls.

During interviews and while reviewing home rehab files, auditors noted:

- 1) Change of Work Order forms approved by the rehab advisor without any evidence of further review or approval by management.
- 2) A rehab advisor told the auditor that he created invoices for contractors from information called in over the phone using a template on his computer. He said that he did this because contractors were often too busy or did not have office staff available to prepare invoices. Auditors also obtained from the rehab files, copies of invoices for different contractors that were made using the same template.
- 3) Four of the eight contractors used during fiscal year 2008 deal with "specialties" (HVAC, insulation, electrical) and are not just general contractors. Therefore, some of the others on the Approved Contractor List could be specialists who also act as general contractors.

We strongly encourage HFS to review this program again and implement strong internal controls to ensure that federal monies are expended appropriately. We also urge HFS to develop and implement a corrective action plan for this program as required by OMB Circular A-133.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG14-22: Department Of Housing And Family Services Did Not Identify An IDIS Administrator And Did Not Provide Training To IDIS Team Members**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Cash Management  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Integrated Disbursement and Information System (IDIS) is the draw down and reporting system for the four Community Planning and Development formula grant programs, CDBG, HOME, ESG, and HOPWA, within the United States Department of Housing and Urban Development (HUD). The system allows grantees to request their grant funding from HUD and report on accomplishments.

The Department of Housing and Family Services management has not identified an IDIS administrator and has not properly trained staff who work in IDIS as an essential part of their grant administration duties. IDIS team members cannot perform all job duties necessary to properly administer these grants, management cannot review transactions in the IDIS system, and the IDIS team has limited knowledge of the functions available in the system due to lack of proper training. During fiscal year 2008, HUD provided free IDIS training in the Louisville area. IDIS team members were not allowed by HFS management to attend. The ability to use the IDIS system as part of grant administration duties is critical.

**Recommendation**

We recommend HFS identify an IDIS administrator who can provide access to user IDs to the IDIS team, answer questions, troubleshoot problems and provide training to other staff. Management should communicate this information to all staff that use IDIS for grant administration. HFS should also provide training to IDIS team members so grants can be administered properly and efficiently.

**Management's Response and Corrective Action Plan**

*Effective July 1, 2007, Finance became responsible for creating and approving HUD draws in the IDIS system, and Finance staff did attend IDIS training provided by HUD during FY 08. Finance grants management staff were granted access to create and approve draws in the IDIS system during this transition in FY 08. HFS remained responsible for all other HUD program responsibilities managed with the IDIS system, but as a result of this transition, there were some organizational issues that HFS was addressing during FY 08.*

*In an effort to centralize IDIS responsibilities, the compliance unit manages program set-up and close-out (in coordination with the business office to ensure that programs are set up in IDIS to parallel LeAP), performance measurement updates, reporting, and reconciliation of IDIS to LeAP.*

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-HOME/CDBG14-22: Department Of Housing And Family Services Did Not Identify An IDIS Administrator And Did Not Provide Training To IDIS Team Members (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Appropriate IDIS access has been granted to members of the compliance unit, as well as "read-only" access for a number of additional HFS staff. This will aid in program management while others within the department will be able to view financial and performance measurement data. There are no members of the HFS department that have access to create or approve draws, since that process is now being managed by Finance.*

*HUD is providing consultants to assist HFS in insuring that the flow of information to and from the IDIS system and program staff occurs. The consistent inclusion of Finance will assist in the development of a procedural guide for HFS staff on how to manage IDIS set-up, draw-downs, data entry and reconciliation.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG16-23: The Government's Accounting System (LEAP) Does Not Reconcile To The Federal IDIS System**

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Federal Program: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Cash Management  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Louisville Metro Government's financial management system did not reconcile to grant balances reported in the federal IDIS system. This is a repeat finding and has been documented both in prior year audit reports and the United States Department of Housing and Urban Development (HUD) monitoring reports stating the problem dates back to merger.

In the past, the Department of Housing and Family Services (HFS) processed drawdowns and did not reconcile the amounts drawn down to LeAP. Finance began processing drawdowns for HFS during fiscal year 2008, but HFS then processes numerous journal vouchers moving expenditures between accounts, grants and funds. (See FINDING 08-HFS01-01) Finance provided a reconciliation of the two systems for fiscal year 2008, but not for 2007 back to merger. There is currently a team in place working on this reconciliation. However, because the systems are not reconciled, HFS cannot assure HUD that HOME and CDBG grant funds have been properly accounted for. Material errors, fraud or non-compliance could occur and not be prevented or detected.

Office of Management and Budget (OMB) regulations at 2 Code of Federal Regulations (CFR) 225, Cost Principles for State, Local, and Indian Tribal Governments (formerly OMB Circular A-87) provide that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

**Recommendation**

We recommend HFS continue to address getting the prior year reconciliations in order. HFS and Finance should work together going forward to make sure the two systems stay reconciled at all times for accurate financial reporting.

**Management's Response and Corrective Action Plan**

*Metro has made significant improvement on the reconciliation of HUD's IDIS system to Metro's financial system since the beginning of FY 08, and continues to place importance on the completion of reconciling past years' information (see also response information included within FINDING 08-HFS-03[-03]).*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG16-23: The Government's Accounting System (LEAP) Does Not Reconcile To The Federal IDIS System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Finance is now responsible for processing reimbursement requests through HUD's IDIS system. Finance submits an expenditure verification report to HFS twice a month to ensure that all expenditures getting reimbursement are appropriate and correct. Finance maintains open lines of communication with HFS to ensure that all reimbursement requests are applied against the appropriate programs established in IDIS.*

*Starting in FY 09, Finance performs a monthly reconciliation of all HUD expenditures, draws, and program income in addition to an annual reconciliation. These reconciliations will help keep both the IDIS and LeAP systems reconciled going forward.*

*HFS has met with HUD regarding this issue and has begun work on reconciling LeAP and IDIS for fiscal years 2004, 2005, 2006, and 2007. Four temporary HFS employees were hired in the fall of 2008 to begin the process of matching IDIS voucher transactions with LeAP expenditures. This first step in the overall reconciliation process was completed prior to December 31, 2008. HFS will continue to move forward with the reconciliation through FY 09 until it is complete for all years since merger.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG17-24: The Department Of Housing And Family Services Did Not Ensure That The Responsibility For Checking Suspension And Debarment Is Assigned To Someone Knowledgeable Of Grant Requirements**

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Federal Programs: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Procurement Suspension and Debarment  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) has an "Approved Contractor List" available for homeowners to choose from in order to complete their HOME projects. HFS does have a procedure in place to verify that contractors on the "Approved Contractor List" have not been suspended or debarred. However, homeowners are not obligated to choose a contractor off the "Approved Contractor List." When a homeowner selects a contractor that is not on the list, HFS does not have a procedure in place to ensure that the contractor has not been suspended or debarred.

The Executive Administrator for HOME told auditors that a staff person was responsible for this, but when questioned by auditors, that staff person did not know this. Because there are no comprehensive policies and procedures in use by staff, no one in HFS could identify who is responsible for this activity.

Management has not made it a priority to ensure that all grant requirements are met. HFS could potentially do business with a contractor that has been suspended or debarred, causing noncompliance with HOME and CDBG grant requirements. According to OMB Circular A-133 Section I Suspension and Debarment -

*Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred...When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.*

**Recommendation**

We recommend that HFS create comprehensive policies and procedures to address all federal grant requirements, including procedures and documentation requirements for checking suspension and debarment of all contractors used.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-HOME/CDBG17-24: The Department Of Housing And Family Services Did Not Ensure That The Responsibility For Checking Suspension And Debarment Is Assigned To Someone Knowledgeable Of Grant Requirements (Continued)**

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**Management's Response and Corrective Action Plan**

*The Housing division of HFS maintains a list of contractors which have requested and received clearance to be included on the Approved Contractors' List. HFS's quality assurance and control staff review a contractor's insurance, license, Revenue Commission number, appropriate references, and other documentation to certify the contractor as approved in accordance with Metro procurement policies and grant guidelines.*

*Homeowners are not required to use an approved contractor, and a homeowner may choose to use a contractor that is not on the list. If this occurs, the credentials and references of that selected contractor are reviewed by the quality assurance and control staff, the same as if the contractor had applied to be included on the Approved Contractors List. If the selected contractor does not meet the requirements to be an approved contractor, the homeowner may not use that contractor. Policies and procedures exist for reviewing requirements for checking suspension and debarment of all contractors used.*

*The employee responsible for this function knows the policies and procedures described above, but there were simply no instances in the previous year where the procedures for an exception were required to be followed.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG18-25: The Department Of Housing And Family Services Did Not Follow Cash Management Requirements For HOME And CDBG**

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Federal Programs: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Cash Management  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) is not properly following cash management requirements for the HOME grant and CDBG grant. During testing, we found that after expenditures are posted and funds are drawn down from the federal tracking system, IDIS, the expenditures are then moved into different expenditure accounts by journal voucher. This creates a revenue balance in the original accounts.

Because HOME and CDBG are reimbursement grants, the accumulation of revenue without expenditures is not allowed. If an error causes this situation to happen on a rare occasion, the funds should immediately be returned to the federal government. Grant requirements dictate that funds be returned to the federal government if not spent within fifteen days. At HFS, because of the frequent and abusive use of journal vouchers, grant funds are often used to create revenues. HFS management's lack of emphasis on ensuring grant requirements are followed and the excessive use of journal vouchers created the condition that allows this non-compliance with grant requirements. When expenditures are moved to another account after expenditures have been posted to a grant and the funds drawn down, this provides opportunity for unallowable expenses to be charged to federal grants.

The volume of journal vouchers, including those related to payroll (See FINDINGS 08-HFS01-01 and 08-HFS04-04), used to move expenditures from one account to another makes it difficult to determine which expenses are ultimately charged to which grants. This situation could allow a material error or fraud or non-compliance to occur and not be detected by HFS management. The volume of journal vouchers that did not have sufficient supporting documentation limited the scope of audit work that could be performed.

**Recommendation**

We recommend that HFS management learn the grant requirements related to HOME and CDBG grants and that they ensure that staff follow the requirements when posting expenditures and using journal vouchers. We further recommend that the use of journal vouchers be kept to a minimum and that strong oversight by the Department of Finance for HFS journal vouchers be instituted.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-HOME/CDBG18-25: The Department Of Housing And Family Services Did Not Follow Cash Management Requirements For HOME And CDBG (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS and Finance are aware of the cash management requirements for HOME and CDBG reimbursement grants. Typically, reimbursement grants should not accumulate revenue in excess of expenditures; however, there have been cases where this has occurred. This is normally the result of an expenditure that was inadvertently posted to an incorrect program account in the financial system, and it is not discovered until after a draw has been made that a correction is needed.*

*Grant requirements dictate that funds be returned to the federal government if not spent within 15 days. Usually additional allowable expenditures have already been reported under that same program within the 15 days. These expenditures are then covered by the accumulated revenue and not requested in IDIS as an additional draw.*

*It is also important to note that most movement of expenditures is between different programs set up under the same award. For example, an expenditure recorded under a particular CDBG program is moved to be accurately reflected within another CDBG program. Even though a draw may have been made under an incorrect CDBG program, this action still results in CDBG funds covering the same expenditure. Expenditure movement is not necessarily indicative of unallowable expenditures charged to federal grants. Please see responses under FINDINGS 08-HFS-01[-01] and FINDINGS 08-HFS-04[-04] for information regarding the movement of payroll expenditures.*

*Both Finance and HFS consider the accurate and appropriate recording of grant expenditures a high priority. As a way of keeping such movement of expenditures to a minimum, policies and procedures have been implemented during FY 08 to allow review of expenditures before a reimbursement request is completed. Finance creates and submits to the HFS business office an expenditure verification report of all grant expenditures for a given period. The business office then reviews the expenditure verification report and approves the expenditures for drawdown.*

*Journal vouchers are used Metro-wide to record financial activity to the general ledger. Finance has policies and procedures for the processing of those entries, which includes a review process by the department and the appropriate accounting staff. In addition, all journal entries affecting grant accounts are also reviewed by the Finance grant representative to provide assurance as to the accuracy of the entry.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG19-26: The Department Of Housing And Family Services Did Not Perform Sufficient Subrecipient Monitoring Of HOME And CDBG Grant Programs**

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Federal Programs: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Subrecipient Monitoring  
Pass-Through: Not Applicable  
Questioned Costs: \$0

Of the three HOME grant subrecipients reported on the Schedule of Expenditures of Federal Awards (SEFA), none of the three HOME subrecipients were monitored during fiscal year 2008. Those expenditures totaled \$207,254. Auditors cannot be sure how many CDBG subrecipients should have been monitored, but of the six reported on the SEFA, only two were monitored during fiscal year 2008. Payments to the four subrecipients not monitored totaled \$162,376.

The Department of Housing and Family Services (HFS) could not ensure that auditors were provided with a complete list of subrecipients for these grants. Management did not provide staff or adequate resources to ensure that monitoring was completed for subrecipients. Staff did not know the criteria for determining a subrecipient and did not apply it consistently. By not monitoring subrecipients, HFS cannot ensure that grant funds are being spent in accordance with grant requirements or contract provisions. For CDBG, the list of subrecipients provided by HFS staff did not agree to the list of subrecipients on the Schedule of Expenditures of Federal Awards (SEFA). For HOME, auditors discovered a subrecipient missing from the SEFA.

OMB Circular A-133 requires that the participating jurisdiction (Metro) conduct such reviews and audits of its recipients as may be necessary or appropriate to determine whether the recipient has committed and expended funds and has met grant requirements particularly as they relate to eligible activities, income targeting, affordability, and matching contribution requirements.

**Recommendation**

We recommend that HFS develop and implement a monitoring plan to ensure that subrecipients are monitored according to grant requirements. We further recommend that HFS devote adequate staff and resources to this task and provide staff with training to improve their understanding of grant requirements. We also recommend HUD review the payments to the subrecipients not monitored for possible questioned costs.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-HOME/CDBG19-26: The Department Of Housing And Family Services Did Not Perform Sufficient Subrecipient Monitoring Of HOME And CDBG Grant Programs (Continued)**

**Management's Response and Corrective Action Plan (Continued)**

*Metro places great importance on sub-recipient monitoring. HFS will continue to monitor sub-recipients every year in accordance with grant and audit guidelines. Policies and procedures are in place to dictate the monitoring conducted by HFS; although reorganizational changes and staffing adjustments were made during the last year, a specific unit is now designated to continue to ensure compliance.*

*Under the leadership of the interim HFS director, a monitoring plan has been established and additional resources have been allocated to the process of regularly monitoring sub-recipients in FY 09. The monitoring of sub-recipients is now centralized under the compliance unit. The monitoring team within this unit currently consists of one supervisor and two staff members, with plans to add an additional staff member in the near future. The supervisor of this unit has completed the HUD monitoring training for both CDBG and HOME. Additionally, HUD training is available throughout the year for the staff, and they will attend appropriate sessions as they are offered. This unit was not in place during FY 08 due to personnel constraints and turnover, but will continue to be a priority for the HFS Department in the future.*

*The schedule of monitoring activity for 2009 has been reviewed and provided to HUD and is included as Attachment I to this response, and as a result of this plan sub-recipients will be appropriately monitored in FY 09. HFS consulted with HUD on the compilation of this schedule to ensure that the planned monitoring activity was appropriate and sufficient to meet grant requirements. HFS will begin providing a quarterly update on these to HUD.*

*HFS has thorough policies and procedures in place for the monitoring and management of sub-recipients. HFS will continue to review and comply with those policies and complete regular monitoring reviews over sub-recipient grantees. HFS will cooperate with HUD's review of sub-recipient payments that were not monitored in previous years.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG20-27: The Department Of Housing And Family Services Did Not Properly Administer HOME And CDBG Grant Programs**

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Federal Programs: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Period of Availability  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) was notified on December 4, 2007, that it was in danger of missing a commitment deadline for HOME funds. Also, HFS must meet certain ratios keeping the amount of money awarded versus the amount spent at a certain level. A Timeliness Report from IDIS for CDBG indicated that HFS was not expending and drawing down CDBG funds timely. While the commitment deadline and ratio requirement were ultimately met, HFS should improve program administration to ensure future commitment deadlines and timeliness ratios are being monitored and completed in accordance with grant requirements.

During fiscal year 2008, HFS management reduced staff, changed staff's job duties numerous times, redecorated offices and changed locations. With focus on these changes, rather than on improving and providing affordable housing for citizens, HFS programs were not administered efficiently and effectively. HFS could lose federal funds if commitment deadlines are missed.

The HOME Program statute provides that HOME funds are available to participating jurisdictions for commitment to affordable housing for a period of twenty-four months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnerships Grant Agreement. If not committed within the 24-month period, the funds will no longer be available.

**Recommendation**

We recommend that HFS improve administration of HOME Investment Partnership programs to ensure that grant funds are committed and spent within the period of availability. We also recommend that HFS ensure that someone is monitoring commitment deadlines for HOME funds and timeliness deadlines for CDBG funds.

**Management's Response and Corrective Action Plan**

*HFS did not miss commitment deadlines or ratio requirements for HOME or CDBG funds during FY 08, and has been compliant with commitment deadlines and ratio requirements in FY 09. During calendar year 2007, Metro Government implemented multiple reorganizational changes for continued efficiencies and improvements. HFS was a part of this reorganization, and any restructuring involves transition of staff and physical moves when you merge a number of departments into one. HFS works very closely with the local HUD office to ensure that these obligations are met and managed appropriately.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG20-27: The Department Of Housing And Family Services Did Not Properly Administer HOME And CDBG Grant Programs (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Under the provisions of 24 CFR 570.902 of the CDBG regulations, a grantee is considered to be timely, if 60 days prior to the end of the grantee's program year, the balance in its line-of-credit does not exceed 1.5 times the annual grant guidelines, and HUD reviews this ratio to ensure compliance by the grantee. The CDBG Timeliness report is a tool that is reviewed by HFS to measure compliance of this requirement. The report is not necessarily indicative that draws are not being performed timely, but assists the department in monitoring the timing of spending down granted funds in a timely manner.*

*HFS has made great improvements in the administration of HOME Investment Partnership Programs. Under the Housing division, management tracks the rate of expenditures for all homeowner services, and the rate of expenditures for the Neighborhood Stabilization Program ("NSP"), Community Housing Development Organization ("CHDO") and Rental Development Programs. In addition, a periodic review of the rate of expenditures and unit goals will be conducted during the program year by management. As a result, program outreach will be increased, application acceptance decreased, or program requirements revised to help match the flow of approved requests.*

*HFS management will ensure that commitment deadlines for Home funds and timeliness deadlines for CDBG funds are met.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG21-28: The Department Of Housing And Family Services Did Not Ensure That The Required Annual Performance Reports For HOME And CDBG Were Supported By The Government's Accounting System (LeAP), Completed By Knowledgeable Staff, Reviewed By Knowledgeable Management, And Submitted Timely**

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Federal Programs: CFDA #14.239 - HOME Investment Partnership Program  
CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Reporting  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The HOME Program Annual Performance Report was not supported by Metro Government's accounting system (LeAP). There was \$3,362,254.37 of program income reported as balance on hand at the end of the reporting period. Finance has no record of this balance in the accounting system, therefore, the Annual Performance Report is incorrect. The report also was not submitted timely. Instructions on the form direct recipients to submit the form on or before December 31, 2007. The date recorded on the form as the date submitted was March 31, 2008.

For the HOME Annual Performance Report, the responsibility to prepare this report was moved from a knowledgeable person who had completed the report for several years to someone who didn't know how to prepare the report. Training was not provided to help this person understand how to correctly prepare the report. The amounts in the report cannot be traced to LeAP.

The CDBG Annual Performance Report was not completed. The Executive Administrator for CDBG did not know any information about the report when questioned by auditors. There were no written policies and procedures to direct staff to prepare reports.

According to OMB Circular A-133, recipients shall submit performance reports at least annually. Performance reports generally contain information related to accomplishments of goals and objectives and other pertinent information about project costs. These reports should be supported by the entity's financial system and be prepared by persons knowledgeable of grant requirements.

**Recommendation**

We recommend that HFS endeavor to report activity as reflected in LeAP and keep supporting documentation with the report. If staff are unsure how to fill out the report, HFS should request training from HUD. A supervisor knowledgeable of HOME and CDBG reporting requirements should review the reports upon completion to ensure accuracy and ensure timely submission to HUD.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-HOME/CDBG21-28: The Department Of Housing And Family Services Did Not Ensure That The Required Annual Performance Reports For HOME And CDBG Were Supported By The Government's Accounting System (LeAP), Completed By Knowledgeable Staff, Reviewed By Knowledgeable Management, And Submitted Timely (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS places great importance in the accurate and timely submission of all federal reporting. Issues have been raised in this finding regarding the HOME Annual Performance Report ("APR"), a program income balance reported on the HOME APR, and the CDBG APR.*

*To clarify, HFS submits the Comprehensive Annual Performance and Evaluation Report ("CAPER") to HUD by March 31<sup>st</sup> of each year. The CAPER includes the CDBG annual performance information. There is no separate APR report due to HUD for the CDBG program. This is why the executive administrator over CDBG did not recognize a CDBG APR when questioned by the auditors.*

*Additionally, a program income balance was reported on the HOME APR. Due to re-structuring and organizational issues throughout FY 08, the responsibility to submit the HOME APR fell to HFS staff that had not received adequate training in the compilation of the report. There is no accumulated balance of program income in the general ledger. As required, program income is spent before entitlement draws are requested.*

*One of the responsibilities of the compliance unit will be the compilation and timely submission of the HOME APR and the CAPER. The compilation process will include verification that the financial information reported reconciles with LeAP, and that appropriate supporting documentation is maintained with each report. The executive administrator over compliance unit, along with the appropriate program managers, will review the HOME APR and the CAPER for accuracy before submission to HUD.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 2008-CDBG22-29: The Department Of Housing And Family Services Did Not Meet Earmarking Requirements For CDBG**

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Federal Programs: CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Matching, Level of Effort, Earmarking  
Pass-Through: Not Applicable  
Questioned Costs: \$0

Earmarking is a requirement that specifies a limit amount or percentage of the program's assistance that must (minimum) or may be used (maximum) for specified activities. Examples of this include limits imposed on the government on the amount of federal funds to be used to cover administrative expenses, or a percentage requirement for total program funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered (e.g. a limit on how many participants a recipient can assist).

The Department of Housing and Family Services (HFS) has budgeted 25% of the program's assistance for administration and planning in the 2008 Action Plan, which exceeds the 20% limit set by grant guidelines. Further, HFS could not provide documentation from the government's accounting system (LeAP) that supports the earmarking data reported for 2007.

There is also a lack of internal controls over report preparation. Management does not review earmarking reports, nor is there a formal policy that earmarking reports should be generated at a certain time. LeAP reports to support the earmarking report were not retained. The lack of reconciliation between the federal disbursement system (IDIS) and LeAP makes it difficult to determine the accuracy of data in IDIS. If HFS follows the budgeted amount in the 2008 Action Plan, they will not be in compliance with CDBG earmarking requirements. CDBG grant requirements limit planning and administrative costs charged to grants to 20% of the grant funds and 20% of current year program income.

**Recommendation**

We recommend HFS assign knowledgeable staff to complete the Action Plan and earmarking reports. Knowledgeable management should review the reports for accuracy, completeness and compliance with federal grant requirements. Supporting documentation, such as reports from LeAP should be maintained for review. A reconciliation for all program years between IDIS and LeAP should be completed to ensure that data in IDIS is accurately reflective of expenditures in LeAP.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 2008-CDBG22-29: The Department Of Housing And Family Services Did Not Meet Earmarking Requirements For CDBG (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of meeting the CDBG earmarking requirements. The compliance unit is now responsible for preparing the Action Plan. The staff will provide oversight of this activity, ensuring all grant expenditure requirements are met.*

*The Action Plan provides the basis for which the grant budgets are established in LeAP each year; therefore, LeAP Budget reports will coincide with the Action Plan. The budgetary controls within the LeAP system ensure that expenditures do not exceed the budgeted amount. This provides appropriate control and oversight that expenditures are compliant with earmarking requirements.*

*Although the 2008 Action Plan budgeted 25% for administration and planning, actual expenditures for January 2008 through December 2008 were within the required 20% earmarking limit. The 2009 Action Plan has been submitted with administrative and planning expenditures appropriately budgeted at 20% of the total award.*

*As discussed in Finding 08-HOME/CDBG-16[-23], the reconciliation of IDIS and LeAP is underway and is anticipated to be complete by the end of this fiscal year.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-CDBG23-30: The Department Of Housing And Family Services Expended Grant Funds For Unallowable Costs**

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Federal Programs: CFDA #14.128 - Community Development Block Grant/Entitlement Grant  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Costs Principals  
Pass-Through: Not Applicable  
Questioned Costs: \$46,884

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program is to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. All activities undertaken must meet one of three national objectives, i.e., benefit low-and moderate-income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency.

The following unallowable costs were found during testing of CDBG expenditures:

- An invoice to Young Adult Development in Action for \$45,800 for work performed during FY2004-2005 and FY2005-2006. Per the HFS Business Office Manager, the payment was for expenses incurred during FY 2004-2005 and FY 2005-2006 that HFS failed to pay timely.
- Invoice for training for the Executive Administrator of the HOME program was charged to CDBG, \$417.14.
- Invoice for Gatorade should not have been paid with CDBG funds, \$383.36.
- Invoice for cleaning supplies should not have been paid with CDBG funds, \$272.45.
- Invoice for ToysRUs had a late fee that should not have been paid with CDBG funds, \$11.13.

Auditors could not test payroll expenditures for allowability due to the numerous journal vouchers processed and the lack of documentation to support the journal vouchers. (See FINDINGS 08-HFS01-01 and 08-HFS04-04). As payroll and related expenditures comprise 46% of total CDBG grant expenditures, this seriously limits the scope of the audit work performed. Auditors can provide no assurance that payroll expenditures charged to the CDBG grant are allowable.

For fiscal year 2008, management eliminated several key program manager positions. This left only staff level positions responsible for processing expenditures and the executive administrator responsible for review and authorization of costs. Lack of knowledgeable review and authorization of costs and lack of comprehensive policies and procedures could allow expenditures charged to grants that are not allowable costs.

Staff should be provided with policies and procedures, grant agreements, and a list of allowable costs for grants. Knowledgeable management should review and authorize costs.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-CDBG23-30: The Department Of Housing And Family Services Expended Grant Funds For Unallowable Costs (Continued)**

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**Recommendation**

We recommend HFS restore the Program Manager position over each program and that a knowledgeable manager be responsible for review of costs to determine allowability and compliance with grant requirements.

**Management's Response and Corrective Action Plan**

*HFS is committed to ensuring grant funds are expended only for allowable program costs. Although some CDBG program manager positions were eliminated in FY 08, HFS has taken steps to re-establish some of those positions to help ensure that knowledgeable employees are involved in the review process and authorization of the costs associated with each program. There are now program managers for the NSP, the CHDO program, the Rental Development Program, the Homeowner Repair Program, the Lead Paint Program, and the Weatherization Program. The program managers and staff members of these programs have been provided grant agreements and expenditure policies and procedures and have an understanding of costs that are allowable under each program.*

*There were five specific examples of unallowable costs presented in the Finding. HFS has the following updates for each:*

*Young Adult Development in Action for \$45,800.00 – The contract was in place for this project, but it appears that work began prior to full execution of this contract. This amount was eligible, and management is reviewing the appropriate treatment of this expenditure.*

*HOME executive administrator training was charged to CDBG for \$417.14 – The HOME executive administrator is also responsible for CDBG rehab programs; therefore, this expenditure was charged under CDBG administration. HFS believes that this expenditure was allowable under CDBG.*

*The miscellaneous expenses listed in this audit comment charged to CDBG were not eligible and will be appropriately adjusted as needed.*

*Metro is aware that journal vouchers were processed to record payroll expenditures under the CDBG program during FY 08. Please see the response to FINDING 08-HFS-01[-01] and FINDING 08-HFS-04[-04] for additional information.*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LEAD24-31: The Department Of Housing And Family Services Has Not Ensured Reconciliation Of Grant Expenditures To Grant Reimbursements - Leaving Approximately \$103,000 Of Expenditures Unreimbursed**

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Federal Program: CFDA #14.900 - Lead-Based Paint Hazard Control in Privately-Owned Housing  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Cash Management  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) did not reconcile grant expenditures to grant reimbursements for the Lead-Based Paint Hazard Control Grant. Based on available records, as of June 30, 2008, grant expenditures totaled \$1,107,862, while reimbursements from HUD totaled \$1,004,025, leaving \$103,837 of unreimbursed expenditures.

Some of the unreimbursed expenditures were for expenditures dating back to July 2007. Since HFS did not submit drawdown requests in a timely manner, the number of expenditures that grant personnel had to reconcile and submit for reimbursement was voluminous, and as of June 30, 2008, \$103,837 in allowable expenditures that should have been reimbursed went overlooked.

The Lead-Based Paint Hazard Control Grant is a reimbursement grant, which means HFS shall be reimbursed by HUD for 100% of allowable costs incurred in the performance of this grant.

**Recommendation**

We recommend HFS reconcile all past expenditures to reimbursement requests and submit the necessary drawdown requests for any remaining unreimbursed expenditures. Also, supervisory review should be implemented to ensure that reconciliations are performed and drawdown requests are submitted timely.

**Management's Response and Corrective Action Plan**

*Since the beginning of FY 08, HFS and Finance have been coordinating efforts in order to address the reconciliation and drawdown issues for the Lead program. As a result, Finance is now responsible for completing draw requests for the Lead program. Finance prepares expenditure verification reports and submits them to the Lead team for review and approval on a monthly basis. Once expenditures are approved by the Lead team, Finance completes the draw.*

*As of June 30, 2008, there were expenditures in the Lead program that had not yet been reimbursed. Both Finance and the Lead team were aware of this situation. A reimbursement request was not submitted for these expenditures because the expenditures had not been reviewed and were not approved for reimbursement. In this particular case, the expenditures in question needed to be reviewed and reconciled before a reimbursement request could be submitted, they were not overlooked. Finance and HFS personnel will have this reconciliation complete by the*

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-LEAD24-31: The Department Of Housing And Family Services Has Not Ensured Reconciliation Of Grant Expenditures To Grant Reimbursements - Leaving Approximately \$103,000 Of Expenditures Unreimbursed (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*end of FY 09. Once the reconciliation is complete, a reimbursement request will be submitted for all allowable expenditures that have not yet been drawn. It is important to note that HFS was granted a one year extension on this program; therefore, reimbursement requests are allowable for this program through October 31, 2009.*

*In addition to the progress made in reconciling the grant activity and processing reimbursements, the HFS administrator over Lead will maintain a master database of all expenditures and draw requests which will be reconciled to the database maintained by grant personnel on a weekly basis.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LEAD25-32: The Department Of Housing And Family Services Did Not Properly Administer The Lead-Based Paint Hazard Control Grant - Which Put \$1,000,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD**

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Federal Program: CFDA #14.900 - Lead-Based Paint Hazard Control in Privately-Owned Housing  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Period of Availability  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) did not properly administer the Lead-Based Paint Hazard Control Grant. The period of availability for these grant funds ended October 31, 2008. As of October 31, 2008, approximately \$1,000,000 of the \$2,667,659 in grant funds awarded remained unspent. When HFS realized there were funds remaining to be spent, they requested, and were granted a one-year extension to spend these funds.

Due to the lack of management decision-making, and time consuming work on larger projects, the quarterly benchmarks for drawdowns and number of units to be completed within the grant period were not met. If HFS does not properly administer the program within grant guidelines, the amount of funding awarded could be forfeited if not used within the period of availability. Metro citizens could lose the benefit of grant funds, and future federal funds may be reduced if HFS does not spend designated grant funds within the grant period.

Proper administration of the program would allow for the grant funds to be spent within the period of grant availability and allow more projects to be completed so that no funds would be in jeopardy of being forfeited.

**Recommendation**

We recommend HFS properly administer the program to spend the federal funds awarded within the period of availability by providing more training to grant administrators, reviewing staffing needs, finding alternative sources to assist in referrals, and becoming more involved in the neighborhoods to find eligible properties.

**Management's Response and Corrective Action Plan**

*The HFS Lead team has been very successful at meeting many of the required benchmarks set by the Lead program. The quarterly report filed for June 30, 2008, reported that the Lead Safe Louisville Project had not only met the required benchmarks, but in fact far exceeded the established goals before the end of the project on October 31, 2008. Below is a summary of that report:*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LEAD25-32: The Department Of Housing And Family Services Did Not Properly Administer The Lead-Based Paint Hazard Control Grant - Which Put \$1,000,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD (Continued)**

**Management's Response and Corrective Action Plan (Continued)**

<u>ACTIVITY</u>	<u>BENCHMARK</u>	<u>LSL PROJECT</u>
<i>Inspections</i>	<i>300</i>	<i>409</i>
<i>Units completed and cleared</i>	<i>225</i>	<i>269</i>
<i>Community Outreach</i>	<i>12 events</i>	<i>146 events</i>
<i>Training</i>	<i>12 classes</i>	<i>195 people trained</i>

*The issue with meeting benchmarks related to the completion of draws was due in large part to the expenditure reconciliation stated above in FINDING 08 – LEAD-24[-31]. Now that it is policy to complete draws monthly and as the expenditure reconciliation is completed, we are on target to meet all draw benchmarks.*

*Training has been provided to the grant administrator by the Lead Government Technical Representative (“GTR”). HFS has developed a ten-point outreach plan (see Attachment J) to find alternative sources to assist in referrals and become more involved in the neighborhoods to find eligible properties.*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LEAD26-33: The Department Of Housing And Family Services Submitted Reports To HUD That Were Not Accurate**

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Federal Programs: CFDA #14.900 - Lead-Based Paint Hazard Control in Privately-Owned Housing  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Reporting  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) submitted reports to HUD for the Lead-Based Paint Hazard Control Grant that were not accurate. Quarterly Progress Reports did not reflect the correct amount of total funds drawn down.

For June 30, 2008, the amount on the report titled "Cumulative Federal Grant Funds Drawn (LOCCS) Through End of Report Period" shows \$417,970; however, total funds actually drawn down through June 30, 2008, totaled \$1,368,740. Also, amounts reported on the SF-269 Report did not properly account for third party contributions; therefore, amounts reported as actual federal expenditures on the report submitted to HUD were not in agreement with accounting records.

Due to the lack of reporting knowledge of program managers and grant personnel, reporting errors have occurred. Errors in federal reports may lead to non-compliance with grant agreements. HUD requires accurate quarterly financial management and performance reports for the Lead-Based paint Hazard Control Grant.

**Recommendation**

We recommend grant program managers and personnel obtain additional training on report preparation to ensure grant reports are accurate and complete. HFS should determine if amended reports should be filed as a result of these errors.

**Management's Response and Corrective Action Plan**

*The HUD GTR that was previously over the Lead program had requested that a Part 3 document be submitted with every Line of Credit Control System ("LOCCS") drawdown request. The Part 3 document is basically a break-down of the expenditures that are being reimbursed. The HFS Lead grant personnel misinterpreted this requirement to mean that because the Part 3 documentation was submitted with each draw, it did not have to be submitted with the Lead quarterly report. This was apparently a miscommunication between HFS and the GTR. The Part 3 information was, in fact, required to be included with quarterly reports.*

*HFS has now been assigned a new HUD GTR, and Lead grant personnel have received additional training from the GTR on appropriate quarterly reporting. HFS and the HUD GTR have begun a process of updating all quarterly reports to reflect accurate information and filing amended reports as required. It is expected that all amended reports will be complete by February 2009.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC27-34: The Department Of Housing And Family Services Did Not Properly Administer The Shelter Plus Care Grant - Which Put Approximately \$348,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD**

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Federal Program: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Period of Availability  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) did not properly administer the Shelter Plus Care Grant. Approximately \$348,000 of unspent Shelter Plus Care funds were not spent during the grant period, and are now subject to recapture by HUD.

Due to the shortage of personnel available to process additional applicants, and management not providing good oversight, direction, or accountability, total grant funds were not spent. Metro citizens lost the benefit of program funds and future federal funds may be reduced due to HFS not spending designated grant funds. Proper administration of the program would allow for the grant funds to be spent within the period of grant availability in order to benefit as many citizens as possible.

**Recommendation**

We recommend HFS properly administer the program to spend the federal funds awarded within the period of availability by reviewing staff size and caseloads, and implementing periodic supervisory review to ensure grant goals are met and funds are expended in a timely manner.

**Management's Response and Corrective Action Plan**

*HFS is committed to serving the housing needs for as many homeless citizens as possible. Returning funds to the federal government under the Shelter Plus Care ("SPC") grant is not an indication of poor administration. There are several factors that impact the expenditure of SPC grant funds including:*

*HUD calculates rents using a formula that does not account for the 30% of income clients must pay towards their rent.*

*Local rents are generally lower than HUD formula.*

*The size of the households served may be smaller than size projected in the grant budget.*

*Household income/allowable deductions vary so the 30% paid towards rent fluctuates from client to client, making long-term planning difficult.*

*A lack of capacity of non-profit service providers to supply the HUD required permanent case management impedes referrals to the projects.*

*Referrals are reduced from the list due to strict federal eligibility criteria.*

*Competing programs have less stringent guidelines.*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC27-34: The Department Of Housing And Family Services Did Not Properly Administer The Shelter Plus Care Grant - Which Put Approximately \$348,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The majority of SPC population goals for serving the homeless were met or exceeded (see Attachment K for the listing of SPC population goals).*

*HFS has added three staff members for a total of eight staff and one supervisor to the TBRA/SPC team, and weekly meetings are held between the director of the Human Services division and the TBRA/SPC team. In addition, the HFS compliance unit is assisting with applications, reporting and tracking, which frees up management to focus on programmatic and financial issues.*

*HFS has met with the local HUD office as well as the Coalition for the Homeless to establish an ongoing collaboration to gain information about local needs, and to provide training and technical assistance. Large numbers of applicants are now being processed in twice a month "blitzes" allowing for efficient use of provider and staff time. A pilot project is underway with local providers to streamline the application process by assisting HFS in gathering applicant pre-qualification paperwork to ensure clients meet eligibility requirements. Finally, the Inspections, Permits, and Licensing Department of Metro Government is assisting HFS by conducting housing inspections, which allow HFS staff to process more applicants.*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC28-35: The Department Of Housing And Family Services Did Not Drawdown All Allowable Costs For The Shelter Plus Care Grant**

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Federal Program: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Period of Availability  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) has not drawn down allowable administrative costs for Shelter Plus Care since 2004. Under the Shelter Plus Care grant, up to 8% of allowable administrative costs can be earmarked and federal funds drawn down to reimburse those expenses.

In order to make more funds available for rental payments, HFS has not drawn down the administrative costs allowed. With approximately \$348,000 in unspent Shelter Plus Care funds, HFS should have submitted draw down requests for these allowable expenditures before the end of the period of availability rather than leave these grant funds unspent and in jeopardy of being forfeited back to HUD. Metro citizens lost the benefit of program funds that are subject to recapture, and future federal funds may be reduced due to not spending the funds awarded.

**Recommendation**

We recommend HFS draw down any allowable administrative costs and implement periodic reviews to ensure that goals are met and all allowable costs are drawn down before the end of the grant period.

**Management's Response and Corrective Action Plan**

*Previous practice of HFS did not take a portion of the grant funds to cover administrative costs from the SPC grants. Any active SPC programs that do not currently have administrative cost centers established in LeAP will be updated in the financial system to allow for current year administrative charges to be recorded as grant activity, and draws completed as applicable. Going forward, all new SPC awards will be set up in LeAP with an appropriate budget and a cost center that will allow for administrative expenditures as appropriate to be recorded and reimbursed monthly.*

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DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC29-36: The Department Of Housing And Family Services Did Not Submit Required Reports To HUD In A Timely Manner**

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Federal Programs: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Reporting  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) did not submit the required Annual Progress Reports for the Shelter Plus Care Grants in a timely manner. Reports scheduled to be submitted by September 28, 2008, had not been completed or submitted until at least November 3, 2008, and other past due reports have yet to be completed.

Due to time constraints, large caseloads, and staffing limitations, HFS personnel have not had the time to devote to the reporting requirements. 24 CFR section 582.300(d) requires each recipient keep any records and, within the timeframe required, make any reports that HUD may require. For Shelter Plus Care, HUD requires the recipients of HUD's homeless assistance grants to submit an Annual Progress Report (APR) to HUD within 90 days after the end of each operating year. The failure to submit an APR timely has resulted in drawdowns being suspended for the grant. This will delay HFS receiving reimbursements for grant expenditures, and may result in a determination of lack of capacity for future funding.

**Recommendation**

We recommend management evaluate staffing needs and caseloads to determine adequate staffing requirements to meet these reporting requirements. Also, management should ensure all Annual Progress Reports are completed and submitted in a timely manner by monitoring reporting compliance.

**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of timely report submission. Several steps have been taken to ensure all reporting requirements are met going forward. In order to monitor reporting compliance, the director of the Human Services division of HFS has created a system by which HUD staff, the Coalition for the Homeless, the compliance team, Finance and business office personnel regularly provide feedback on reporting status as a fail safe method to assure they are completed timely. Additionally, SPC staff members have been notified that late submission of reports shall result in disciplinary action.*

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC29-36: The Department Of Housing And Family Services Did Not Submit Required Reports To HUD In A Timely Manner (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*A review of caseloads and staffing needs was conducted by the director of the Human Services division. It was determined that the ratio of caseloads to staff was too high and inefficient. The staff level allowed only for current caseloads to be worked, with no time to process new cases. As a result, two additional staff have been added to the team as intake personnel, working solely on new cases.*

*As of January 31, 2009, all outstanding Annual Progress Reports were submitted to HUD, and are current to date.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC30-37: The Department Of Housing And Family Services Lacks Internal Controls Over The Shelter Plus Care Rental Assistance Program**

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Federal Programs: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Eligibility  
Pass-Through: Not Applicable  
Questioned Costs: \$2,839

The Department of Housing and Family Services (HFS) did not have adequate controls in place to ensure payments to landlords for terminated clients did not continue.

On June 1, 2007, a client was sent, by certified mail, a letter notifying her that she was being immediately terminated from the Shelter Plus Care rental assistance program, due to violating conditions of occupancy; however, HFS continued to pay the landlord rental payments for this client. HFS caught the overpayment and sent the landlord a letter on January 23, 2008, asking for a refund, yet HFS continued to make payments to this landlord for this same client until March 2008, for a total overpayment of \$2,839. To date the landlord that received this overpayment has not repaid the money.

Since adequate controls were not in place to ensure terminations were taken off the pay requests sent to Finance, HFS made overpayments to landlords for terminated clients and federal funds were spent inappropriately.

**Recommendation**

We recommend HFS implement controls to ensure terminated clients are removed from pay requests in a timely manner.

**Management's Response and Corrective Action Plan**

*HFS has investigated this particular case, and it was found to be an isolated incident. It is a priority for HFS to ensure these types of incidents do not continue. As a result, internal controls over these programs have been reviewed and policies and procedures put in place to ensure that rental payments do not continue to be processed for terminated clients.*

*Prior to FY 09, HFS documented changes to a client's status of eligibility through paper notes maintained in the case file. All client information is now maintained in an automated system referred to as CARE. This system allows for the input of automated case notes, changes in client eligibility, changes in client income, etc. so that all pertinent information is housed in one database. In addition, both the supervisor and the business office have access to review the information reported in the system as a measure of oversight.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
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Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC31-38: The Department Of Housing And Family Services Did Not Meet The Matching Requirements For The Shelter Plus Care Grant**

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Federal Programs: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Matching, Level of Effort, Earmarking  
Pass-Through: Not Applicable  
Questioned Costs: \$34,733

The Department of Housing and Family Services (HFS) did not meet the matching requirements for the Shelter Plus Care grant. HFS spent over \$171,000 in Shelter Plus Care funds for rental assistance with Seven Counties Services, Inc., but only \$136,267 was documented as support service match paid by the local provider. The difference of \$34,733 is considered a questioned cost.

Per 24 CFR section 582.110, “a grantee must provide or ensure the provision of supportive services that are at least equal in value to the aggregate of rental assistance funded by HUD.” Due to staffing limitations, matching requirements were not properly monitored and tracked. Since, the matching requirement was not met, federal funds may have to be repaid and future funding could be reduced.

**Recommendation**

We recommend HFS evaluate staffing needs to determine an adequate staff size and implement controls to ensure the matching requirements are monitored and met in accordance with grant requirements.

**Management’s Response and Corrective Action Plan**

*HFS has made several significant improvements in their process for tracking support services to comply with SPC match requirements. All providers must sign a Memo of Understanding with HFS agreeing to submit a quarterly report to HFS to highlight the expenditures they have incurred to meet the match requirement. The HFS supervisor then performs an analysis of the provider’s quarterly report to the amount of funding HFS has paid to the provider. If it appears that the provider is not on track to meet the match requirement based on the amount of funding they have received from HFS, the HFS supervisor will contact the provider and work with them to take action to ensure the match requirement is met.*

*In addition, with the assistance of the Homeless Coalition, problem solving conferences are being held with individual support service providers to help them understand the importance of their role in serving clients as well as the importance of the match requirement.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SPC32-39: The Department Of Housing And Family Services Lacks Policies And Procedures To Ensure Landlords Are Not Receiving Other HUD Funding In Addition To Shelter Plus Care Funding For The Same Rental Unit**

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Federal Programs: CFDA #14.238 - Shelter Plus Care  
Federal Agency: U.S. Department of Housing and Urban Development  
Compliance Area: Eligibility  
Pass-Through: Not Applicable  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) does not have adequate controls in place to ensure landlords are not receiving any other HUD funding in addition to Shelter Plus Care funding for the same rental units.

Per the grant requirements, Shelter Plus Care grants may be used for providing rental assistance for rental units occupied by participants in the program, as well as administrative costs as provided by the grant. However, the same rental unit may not also be receiving federal funding for rental assistance or operating costs under other HUD programs.

HFS staff is relying solely on the support service providers to determine if the rental units receiving funding are eligible. This determination was not adequately documented in the case files. If this determination is not made, the landlord could receive federal funding for rental assistance or operating costs under other HUD programs, and Shelter Plus Care funds may be provided for ineligible rental units, which would result in questioned costs and perhaps repayment of grant funds.

**Recommendation**

We recommend HFS implement controls to ensure landlords with rental units receiving Shelter Plus Care grant funding are not also receiving federal funding for rental assistance or operating costs under other HUD programs. This review should be properly documented in the case files in order to avoid a noncompliance with the grant's requirements.

**Management's Response and Corrective Action Plan**

*HFS will continue to coordinate with support service providers to determine if rental units receiving SPC funding are eligible. In addition, HFS will mandate that the Request for Tenancy form be completed by the landlord to certify compliance with the HUD rule that the landlord may not receive additional HUD funding in addition to the SPC funding. Leases will not be signed by management unless the landlord agrees to this provision and certifies compliance. Staff members have received training on the necessity of this form and those who allow cases to proceed without appropriate completion of this document will be subject to disciplinary action.*

*Lease files are reviewed by the supervisor and the division director when completed. The Request for Tenancy form will be maintained in the case file to document compliance with SPC eligibility*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP33-40: The Department Of Housing And Family Services Did Not Submit LIHEAP Reimbursement Requests According To Procedures Set Forth By The Funding Agency**

Federal Program: CFDA #93.568 - Low-Income Home Energy Assistance  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Cash Management  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$0

The Low Income Home Energy Assistance Program (LIHEAP) obtains federal funds on a reimbursement basis. During testing performed over reimbursement requests (Form HM-2), it was noted that the requests were not submitted according to the schedule and procedures as outlined in the LIHEAP Manual.

Per discussion with agency personnel, the invoices are submitted timely, but without required signatures. Invoices are submitted again, at a later date, after being reviewed, with the appropriate signatures. By obtaining the signatures after submission, the reimbursements requests are not being properly reviewed and approved prior to submission. The lack of appropriate review leaves open the possibility of drawing down federal funds for incorrect amounts or funds being charged to the wrong accounts. In addition, the agency runs the risk of having money drawn down without the knowledge of management and used for purposes outside those outlined in the Federal regulations. By not submitting the reimbursement requests appropriately, the agency is not following the prescribed policies and procedures established by the Kentucky Association for Community Action (KACA) over the program.

Per the LIHEAP Manual, invoices should be submitted to KACA according to the schedule outlined in the appendix. KACA will accept requests for reimbursements only on the appropriate billing form and signed by the appropriate signatory authority, attesting to the accuracy and validity of the expenses reported and assuring the expenses are not duplicative of expenses reported to other funding sources.

**Recommendation**

We recommend the agency implement procedures to ensure that all reimbursement requests are properly reviewed and approved prior to submission to KACA and that requests are submitted timely, according to the schedule outlined in the LIHEAP Manual.

**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of a proper review of expenditures for any grant program prior to a reimbursement submission. Low Income Home Energy Assistance Program ("LIHEAP") payments are processed through LeAP Payables, ensuring that appropriate signatures are obtained on payment invoices in accordance with Metro policies and procedures. Management will review current LIHEAP reimbursement procedures and make the appropriate changes or updates to ensure compliance with Community Action Kentucky ("CAK") (formerly known as Kentucky Association for Community Action) and LIHEAP guidelines. In addition, properly reviewed and signed reimbursement requests will be submitted according to the prescribed reimbursement schedules provided in the LIHEAP Manual.*

*On April 21, 2008, CAK submitted a letter to CAP division of HFS stating that the LIHEAP monitoring for the 2007-2008 program year had been completed. This monitoring included a financial review in which LIHEAP expenditure processes were examined. HFS was found to be in compliance with LIHEAP regulations.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP34-41: The Department Of Housing And Family Services Did Not Ensure All Case Files Are Properly Maintained And Safeguarded - Leaving \$2,516 Of Undocumented Expenditures**

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Federal Programs: CFDA #93.568 - Low-Income Home Energy Assistance  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Eligibility  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$2,516

During the testing of eligibility case files for the Low Income Home Energy Assistance Program (LIHEAP), 20 out of 124 files requested were missing and unable to be tested to determine controls and compliance with eligibility guidelines.

The LIHEAP Manual for 2007-2008 states that each county office will maintain a file for each household making application for assistance. Included in the case file will be a signed copy of the application, documents used for verification, any additional information regarding the disposition of the case, including referrals and other services provided in the form of case notes. The manual further states that the required documentation includes verification of income, responsibility of home energy costs, and for Crisis, verification of disconnect/past due if not a bulk fuel.

The Department Of Housing And Family Services (HFS) did not follow these established procedures for the maintenance and retention of case files. By not properly maintaining case files, confidential information is compromised by being accessed by unauthorized individuals. The files contain sensitive information such as social security numbers and energy provider account numbers. In addition, due to missing files and lack of adequate supporting documentation for eligibility, \$2,516 in expenditures were undocumented and therefore questioned.

**Recommendation**

We recommend that HFS implement procedures to ensure that all eligibility case files are properly maintained and safeguarded in accordance with the LIHEAP Manual.

**Management's Response and Corrective Action Plan**

*In the fall of 2007, management implemented internal procedures to address proper maintenance, retention and security of LIHEAP case files. LIHEAP case files are audited and filed at the close of each business day. The files are subsequently stored in a secure area with doors that lock.*

*HFS will ensure that all eligibility case files are properly maintained and safeguarded in accordance with the LIHEAP manual. In order to ensure appropriate security, management will review current procedures to determine if they are effective and in compliance with the LIHEAP Manual requirements, and will continue to monitor strict adherence to this policy.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP34-41: The Department Of Housing And Family Services Did Not Ensure All Case Files Are Properly Maintained And Safeguarded - Leaving \$2,516 Of Undocumented Expenditures (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Moving forward these payments will be made in accordance with Metro policy. Policy dictates that to pay an invoice, the payment document must be submitted to accounts payable with sufficient back-up documentation and signature approval. This back-up documentation includes a summary report printed from the CASTiNET System that lists the supplier to be paid with a listing of the individuals that received the benefits and the amount of the benefit. The summary report is approved by the program staff member responsible for processing all pay requests for this program. Since September 2007, supporting documentation does exist on record with Metro for the expenditures associated with this grant program.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP35-42: The Department Of Housing And Family Services Did Not Follow Established Procedures For Hiring Temporary/Seasonal Employees**

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Federal Programs: CFDA #93.568 - Low-Income Home Energy Assistance  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principals  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$0

During the performance of various audit procedures, it was noted that during the Emergency Summer Cooling component of the Low Income Home Energy Assistance Program (LIHEAP), six individuals were paid by a stipend as opposed to being paid as a regular temporary/seasonal employee. These employees were not included in Metro's payroll system. No documentation was maintained regarding how these individuals were hired or any prior approval.

The Department of Housing and Family Services' (HFS) policy is to utilize a temporary agency to obtain seasonal/temporary employees. Temporary/seasonal employees are included in Metro's payroll system. By paying these individuals by a stipend, the established policies and procedures for hiring temporary/seasonal staff were circumvented leaving open the opportunity that individuals could be paid without knowledge of management. In addition, individuals could receive federal funds without actually working in the program, leading to possible questioned costs and/or noncompliance with federal regulations. Without going through the proper channels and including all individuals working within a program in Metro's payroll system, an individual earning over \$600 for a calendar year may not be reported and the proper tax deductions not withheld.

We also noted that there were numerous journal vouchers processed moving payroll and related expenses from one cost center to another, often without sufficient supporting documentation. (See FINDINGS 08-HFS01-01 and 08-HFS04-04) This activity limited the scope of the audit work performed.

The lack of adequate controls and proper management oversight allowed individuals to be hired and paid with federal funds without following the established procedures and obtaining properly documented approval. Individuals were paid by stipend due to the agency not having adequate time to go through the temporary agency to obtain temporary/seasonal staff. In addition, approval was given verbally.

**Recommendation**

We recommend HFS follow proper procedures for hiring temporary/seasonal staff and obtain proper, documented approvals.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP35-42: The Department Of Housing And Family Services Did Not Follow Established Procedures For Hiring Temporary/Seasonal Employees (Continued)**

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**Management's Response and Corrective Action Plan**

*Since September 2007, HFS has hired seasonal/temporary employees in accordance with Metro's hiring policies and procedures, thus paying them through Metro's payroll system. Through use of the payroll system, HFS implements adequate control and proper oversight to individuals hired and paid with federal funds, as well as obtaining properly documented approvals. See also, responses included for FINDING 08-HFS-01[-01] and FINDING 08-HFS-04[-04] for additional information.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP36-43: The Department Of Housing And Family Services Did Not Properly Ensure And Document All Recipients Met The Eligibility Requirements For The Low Income Home Energy Assistance Program - Creating \$4,102 Of Questioned Expenditures**

Federal Programs: CFDA #93.568 - Low-Income Home Energy Assistance  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Eligibility  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$4,102

During our audit we noted the Department Of Housing and Family Services (HFS) did not have adequate controls in place for the review of eligibility files to ensure the required information to determine eligibility is accurate, complete, and appropriately maintained for the Low Income Home Energy Assistance Program (LIHEAP).

The LIHEAP Manual for 2007-2008 states that each county office will maintain a file for each household making application for assistance. All documentation for the eligibility determination is to be maintained in the client's file and reported in CASTiNET, which is a state system database of all applicants for LIHEAP benefits. Case files should include a signed copy of the application, documents used for verification, any additional information regarding the disposition of the case, including referrals and other services provided in the form of case notes. The manual further states that the required documentation includes verification of income, responsibility for home energy costs, and for Crisis, verification of disconnect/past due if not a bulk fuel.

Based on the testing performed over eligibility, the following exceptions were noted:

- Client benefits were paid to the energy provider, however CASTiNET showed them as denied (Including the former Director's mother)
- Clients changed their income and/or household number in order to qualify for benefits
- An application was shown as voided in the CASTiNET system, but shown as approved in the file
- Client received benefits in excess of the approved amount
- Employees processed themselves and received benefits
- Employee signed and processed application on behalf of client with the same last name
- Some case files did not contain all required information: they did not contain or document the supervisory review, the required employees signatures and the required eligibility documentation
- Employees used unallowed documents for income verification
- Information in the eligibility file did not agree to the information in CASTiNET
- \$4,102 questioned costs due to HFS not documenting eligibility requirements were met

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-LIHEAP36-43: The Department Of Housing And Family Services Did Not Properly Ensure And Document All Recipients Met The Eligibility Requirements For The Low Income Home Energy Assistance Program - Creating \$4,102 Of Questioned Expenditures (Continued)**

Without adequate review of eligibility files, management is not addressing the risk that information prepared internally or received from external sources could be incorrect. This weakness has led to the aforementioned noncompliances with the eligibility requirements and/or the incomplete or missing information required for case files.

**Recommendation**

We recommend that eligibility files be adequately reviewed and approved prior to payment to ensure that the required documentation is accurate and complete, and eligibility is properly determined. Although the agency is following the requirements of the LIHEAP manual by using a checklist to document eligibility, we recommend that the agency keep copies of all documentation utilized to determine eligibility (i.e., social security cards, energy bills) to facilitate adequate review of eligibility files ensuring only qualified applicants receive benefits. We further recommend that one case file be maintained for each client, with documentation of all activity (all approved, voided, denied applications and any other documents provided) to be included, allowing the processing employee to know the history of the client. By maintaining one file, this will enable the processing employee to know how many times a client has applied for assistance, if the client is changing information, such as income or household number, in order to qualify, and to ensure an applicant does not receive an amount in excess of the allowed benefits. We also recommend that the agency implement procedures to ensure that employees do not process benefits for themselves or for family members.

**Management's Response and Corrective Action Plan**

*Management will review current eligibility and payment procedures to ensure compliance with the LIHEAP Manual. HFS places importance on following eligibility requirements for all programs, and will ensure that required documentation is accurate and complete for all eligibility files.*

*CAK mandates the use of the CASTiNET system throughout the State of Kentucky. This limits management's ability to unilaterally address the CASTiNET software issues. However, management will work with CAK in an effort to create safeguards which prohibit employees from improperly overwriting a client's status in the system. This will ensure that a client's status is always current and changes are easily tracked, as well as ensure that a client's history is accurate and easily accessible in CASTiNET. In addition, client files are manually audited at the close of each business day. The audit tracks the number of clients served for the day, no-shows, and any pending files.*

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

**FINDING 08-LIHEAP36-43: The Department Of Housing And Family Services Did Not Properly Ensure And Document All Recipients Met The Eligibility Requirements For The Low Income Home Energy Assistance Program - Creating \$4,102 Of Questioned Expenditures (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Approximately 12,000 clients are processed during each component of LIHEAP, during a six week period. In accordance with LIHEAP Manual guidelines, the CAK approved eligibility checklist is utilized in an effort to serve clients in an efficient and effective manner. Additionally, in an effort to ensure maximum eligibility review, management requires that all employees and homebound clients who apply for LIHEAP benefits have copies of eligibility documentation in their respective files, and falsification language has been added to the checklist, which each employee must sign affirming the accuracy of their eligibility review. Going forward, management will continue to review current verification procedures to ensure accuracy.*

*In the fall of 2007, management implemented procedures to ensure that employees did not process benefits for themselves or family members. After implementation, several employees were suspended and terminated for non-compliance. These actions reinforced management's commitment to policy compliance for all employees.*

*HFS does not maintain a case file for each client because CASTiNET provides a detailed history. The system tracks the type of service, the date of service and all family members who were listed in the household at that time for each client. Hard copy files are maintained for each client, per program. The hard files are maintained by program for auditing purposes, as each grantor requires separate program files. Due to the large volume of client files, particularly for LIHEAP (in excess of 12,000 per six week period) and the use of CASTiNET, HFS has determined that it would be inefficient to maintain one case file per client.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC37-44: The Department Of Housing And Family Services Expended \$319,904 Of Summer Food Service Program For Children Funds For Unallowable Expenditures**

Federal Programs: CFDA #10.559 - Summer Food Service Program for Children

Federal Agency: U.S. Department of Agriculture

Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principals and Program Income

Pass-Through: Kentucky Department of Education

Questioned Costs: \$319,904

The Summer Food Service Program for Children (SFSPC) receives funding from Kentucky Department of Education (KDE). The initial funding source to KDE is the United States Department of Agriculture (USDA). This program was established to provide nutritious meals to low-income children when school is not in session.

We noted during the audit of the Summer Food Service Program for Children (SFSPC), that program income, which is income generated from the difference between the amount paid for meals by HFS to the Jefferson County Public Schools and the amount reimbursed for meals by KDE to HFS was distributed to a program set up by Metro government called the Mayor's Summer Camp Scholarship Program (MSCSP). According to USDA guidelines, program income can only be used to provide transportation for the children to get to the eligible campsites for food consumption, food enhancement, administrative cost to run the program, and supplies necessary for providing the meals to the children. However, MSCSP awarded scholarships to individuals at specified campsites that were not eligible for this program, paid for expenses that were not allowable, and increased the poverty level to 350% to include children that would not normally be eligible. Of the \$1,714,198 in total expenditures for this program, a total of \$319,904 (23%) was for unallowable and questioned costs.

- In 2007, \$106,393 of SFSPC funds were used to provide scholarships for summer camps. Per KDE and the USDA, SFSPC funds should not be used to provide scholarships. Not only did the Department of Housing and Family Services (HFS) provide these scholarships, they increased the poverty guidelines to provide for children that would not normally be eligible.
- In 2008, \$199,359 of SFSPC funds were used for program enhancement, which included purchasing supplies for camp activities and transportation for field trips. However, based upon the program requirements, program income can only be utilized to provide transportation for the children to get to the eligible campsites for food consumption, food enhancement, and administrative cost to run the program, and supplies necessary for providing the meals to the children.
- HFS also spent \$14,152 of SFSPC funds for unallowable costs associated with the 2007 and 2008 Summer Food Kickoff. Funds were used for food, elaborate decorations, entertainment, gifts, prizes, and games for the kickoff; however, per the USDA guidelines, SFSPC funds cannot be used for entertainment. Program Funds can only be used for compensation of employees for the time and efforts devoted specifically to the execution of the program; the cost of materials acquired, consumed, or expended specifically for SFSPC; equipment and other approved capital expenditures; and other items of expense incurred specifically to carry out the program.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC37-44: The Department Of Housing And Family Services Expended \$319,904 Of Summer Food Service Program For Children Funds For Unallowable Expenditures (Continued)**

We also noted that numerous journal vouchers were processed to move payroll and related expenditures from one cost center to another, often without sufficient supporting documentation. (See FINDINGS 08-HFS01-01 and 08-HFS04-04)

HFS did not follow the guidelines for ensuring that funds were used for allowable activities. In addition, HFS was provided with approval or guidance from KDE that did not follow USDA allowable costs requirements. We understand that KDE provided some type of approval for the scholarship program; however, the auditor contacted USDA and was assured that many aspects of the scholarship program were not allowable.

Based on the unallowable costs explained above, HFS may be required to reimburse the state for the expenditures. Funds expended for unallowable costs could have been utilized for meal enhancement, such as providing more meal options, better quality food, and to feed more low-income children. In addition, this money could have been utilized for administrative costs to provide better quality monitoring to ensure sites are complying with the program.

Per *Policy Memorandum 225.06-44 Simplified Summer Food Program Authorization*, issued by USDA, “we recommend that they use any excess Program funds to improve the meal service or other aspects of the food program”.

Per the *United States Department of Agriculture Food and Nutrition Services (FNS) Instruction 796-4, Rev. 4*, “Costs can be allocated as either direct or indirect. Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the categories of costs which may be classified as direct or indirect in all situations. In general, however, direct costs are those that can be identified specifically with an organization's SFSP operation, and are assignable entirely to the SFSP. Typical direct costs chargeable to the program are compensation of employees for the time and efforts devoted specifically to the execution of the program; the cost of materials acquired, consumed, or expended specifically for the SFSP; equipment and other approved capital expenditures; and other items of expense incurred specifically to carry out the program.”

Per the *USDA Summer Food Service Program For Children Administrative Guidance for Sponsors*, unallowable activities included entertainment and fund raising costs. Operating costs are allowable costs incurred by the sponsor for preparing and serving meals to eligible children and program adults. *Administrative costs* means costs incurred by a sponsor related to planning, organizing, and managing a food service under the Program, and excluding interest costs and operating costs.

**Recommendation**

We recommend that HFS ensure that all expenditures are for an allowable activity as outlined in the USDA Summer Food Service Program For Children Guidance for Sponsors. We also recommend checking with the USDA contact person when implementing a program if uncertain about the allowability of certain aspects.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC37-44: The Department Of Housing And Family Services Expended \$319,904 Of Summer Food Service Program For Children Funds For Unallowable Expenditures (Continued)**

**Management's Response and Corrective Action Plan**

*In 2007 and 2008, HFS sought and received approval from the Kentucky Department of Education (KDE) to expend Summer Food Service Program for Children (SFSPC) funds for scholarships and camp enhancement programs (see written approval regarding this issue included as Attachment L to this response). It is now understood that the federal funding source has the final determination on whether or not certain expenditures are allowable. HFS will ensure future SFSPC program compliance by consulting with the federal grantor prior to program implementation.*

*Management will work with KDE and the USDA in an effort to resolve the issues noted in the finding. See also responses for FINDING 08-HFS-01[-01] and FINDING 08-HFS-04[-04].*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC38-45: The Department Of Housing And Family Services Was Denied \$104,014 Of Reimbursements Due To Inaccurate And Untimely Reimbursement Requests**

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Federal Programs: CFDA #10.559 - Summer Food Service Program for Children  
Federal Agency: U.S. Department of Agriculture  
Compliance Area: Cash Management  
Pass-Through: Kentucky Department of Education  
Questioned Costs: \$0

The Department of Housing and Family Services's (HFS) reimbursement requests for the Summer Food Service Program for Children (SFSPC) did not agree to LEAP, Metro's financial accounting system, resulting in the submission of inaccurate reports. In addition, due to insufficient tracking of meal counts at sites resulting in an initial incorrect reimbursement request, the revised report was not submitted within the deadline set by the Kentucky Department of Education (KDE) per a letter sent November 29, 2007, resulting in HFS not being reimbursed \$104,014. (See Subrecipient Monitoring FINDING 08-SFSPC39-46.) The auditor also noted that reports were not properly reviewed prior to submission.

On November 20, 2007, HFS sent in revised reimbursement reports for June, July, and August 2007, due to a significant miscalculation in the number of meals served and reported in previous reports. However, the revised reports were past the deadline set by KDE for filing revised monthly claims and KDE denied a portion of the revised request, resulting in the \$104,014 of unreimbursed expenses.

The errors occurred due to insufficient knowledge on behalf of the report preparer and the lack of necessary oversight to ensure accuracy and timeliness. Also, sites that served meals did not report accurate meal counts, due to inadequate monitoring and training.

Good internal controls dictate that policies and procedures be implemented to ensure that information submitted is accurate and appropriately approved prior to submission.

SFSPC receives funding based upon reimbursement for meals that are served at eligible sites. Per the United States Department of Agriculture (USDA) SFSPC Administrative Guidance for Sponsors, these reimbursement requests are required to be submitted to the state agency within 60 days of the last day of the month covered by the claim. Revised claims must be submitted within 90 days.

**Recommendation**

We recommend that HFS implement adequate controls to ensure that all reimbursement requests are properly reviewed prior to submission to ensure accuracy and timely reporting. Also, we recommend that a knowledgeable person be responsible for submission of the report and that all information submitted is reconciled to supporting documentation.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC38-45: The Department Of Housing And Family Services Was Denied \$104,014 Of Reimbursements Due To Inaccurate And Untimely Reimbursement Requests (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS is committed to complying with program requirements and established deadlines. Management will review current reimbursement procedures with program managers to ensure all program requirements are understood, and program managers receive applicable training and are held accountable for meeting all deadlines.*

*The program manager for the SFSPC submits requests for reimbursement to the HFS business office. Requests for reimbursement will be prepared by business office staff and reviewed by the business manager for the division to ensure documentation is accurate and submitted in a timely manner. As part of the reorganization of the business office, staff will work with the program managers to develop procedures for processing requests for reimbursements for this program. In addition, a schedule of report and payment due dates will be developed to ensure that reports are submitted in accordance with established deadlines set forth by the grantor.*

*The HFS business office is working with HFS division managers to ensure that financial statements are reviewed and accounts reconciled in a timely manner to allow for any corrections as needed provide correct data for program operations and budgetary review. These combined efforts will ensure compliance with all requirements*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC39-46: The Department Of Housing And Family Services Did Not Comply With Subrecipient Monitoring Requirements**

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Federal Programs: CFDA #10.559 - Summer Food Service Program for Children  
Federal Agency: U.S. Department of Agriculture  
Compliance Area: Subrecipient Monitoring  
Pass-Through: Kentucky Department of Education  
Questioned Costs: \$0

During the testing of compliance with subrecipient monitoring for the Summer Food Service Program for Children (SFSPC), it was noted that the Department of Housing and Family Services (HFS) was not following the appropriate process for monitoring as outlined in the United States Department of Agriculture (USDA) Summer Food Service Program for Children's Monitoring Guide. The auditor reviewed fifty sites from both the 2007 and 2008 program years. Of the fifty reviewed, the auditor noted thirty-three sites where the subrecipient monitoring requirements were not met. Several of the forms documenting meal counts were not accurately completed. Site review/visit issues noted included instances where the monitor noted that the site did not serve the meal at the established time; monitors arrived to find the site closed without prior approval; or informational material was not appropriately displayed as required. The auditor also noted that of the sites that did have a review/visit with issues noted, there were several with no follow up or documentation of correction of the problem.

The lack of appropriate oversight and follow up on site visits/reviews has resulted in inaccurate reporting of meals served, loss of funds from unreimbursed meals, and other noncompliances.

*USDA Summer Food Service Program for Children - Monitoring Guide* outlines the monitor's responsibilities, record keeping, meal pattern requirements, and copies of the forms required to be completed. The guide also discusses the organizational structure and necessary training to be provided by the sponsors. The following types of visits and reviews are required - pre-operational visits, site visits, and site reviews. The guide documents the specification of these visits/reviews, such as, time period to be completed, frequency, and information to be gathered.

In a 2008 site visit for SFSPC, performed by the Kentucky Department of Education (KDE), it was noted that the meals submitted for reimbursement in June 2008 were overstated as they were not appropriately tracking meals served, unused meals, etc.

**Recommendation**

We recommend HFS ensure that all sites are properly monitored as outlined in the USDA Monitoring Guide. Appropriate oversight should be provided to ensure that all sites are properly monitored and all issues noted on the visits/reviews are appropriately addressed.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC39-46: The Department Of Housing And Family Services Did Not Comply With Subrecipient Monitoring Requirements (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS recognizes the importance of appropriate staff levels to ensure adequate resources are allocated to monitor sub-recipients of SFSPC. HFS's goal is to secure an appropriate number of staff members to monitor approved sites. Management will provide sufficient oversight to hold them accountable for monitoring sites and ensuring that sub-recipients implement appropriate corrective actions. This will ensure compliance with the USDA Monitoring Guide.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC40-47: The Department Of Housing And Family Services Overspent Summer Food Service Program For Children Funds By \$259,040 Due To Accounting Records That Were Not Properly Reconciled**

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Federal Programs: CFDA #10.559 - Summer Food Service Program for Children  
Federal Agency: U.S. Department of Agriculture  
Compliance Area: Cash Management  
Pass-Through: Kentucky Department of Education  
Questioned Costs: \$0

During the review of revenues and expenditures for the Department of Housing and Family Services (HFS) Summer Food Service Program for Children (SFSPC), we noted that HFS records were not regularly reconciled to LEAP, Metro's financial accounting system.

The program management and staff lacked the appropriate knowledge to ensure that HFS accounting records were reconciled on a regular basis to LEAP. Policies and procedures either were not in place or not appropriately utilized to ensure reconciliations were performed.

The auditor noted that due to HFS not reconciling their records to LEAP several reserve revenue transfer postings were duplicated, which made it look like the program had more money to spend than they actually had. These duplicated postings resulted in HFS expending \$259,040 of funds that were not actually available. The \$259,040 over expenditure was subsequently posted to and covered by Metro's General Fund.

Good internal controls dictate that proper and timely reconciliation of accounting records to source documents be performed by knowledgeable personnel.

**Recommendation**

We recommend HFS implement controls to ensure proper and timely reconciliations of SFSPC accounting records to LEAP and personnel be adequately trained in the reconciliation process.

**Management's Response and Corrective Action Plan**

*The information in LeAP is the official accounting information related to the grant for all Metro departments. HFS does not maintain separate accounting records; the accounting records for HFS are recorded in LeAP. All financial information related to this grant was accurately reflected in the financial statements for Metro.*

*When closing the accounting records for FY 07, there was an entry that was inadvertently recorded twice, and was discovered and accurately reflected in the FY 07 financial statements by Metro staff. The correction of this entry as it pertained to FY 08 was not made until the end of the fiscal year, which resulted in an over expenditure of actual available funds during the fiscal year. These funds were then appropriately reimbursed by the general fund.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC40-47: The Department Of Housing And Family Services Overspent Summer Food Service Program For Children Funds By \$259,040 Due To Accounting Records That Were Not Properly Reconciled**

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**Management's Response and Corrective Action Plan (Continued)**

*Going forward, program managers and staff will work with the HFS business office to ensure proper and timely reconciliations of accounting records to grant activity. The HFS business office will coordinate with Finance any training that needs to be conducted for HFS staff to understand controls for recording transactions in LeAP and reviewing these records for accuracy.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC41-48: The Department Of Housing And Family Services Did Not Ensure All Eligible SFSPC Sites Were Properly Approved**

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Federal Programs: CFDA #10.559 - Summer Food Service Program for Children  
Federal Agency: U.S. Department of Agriculture  
Compliance Area: Eligibility  
Pass-Through: Kentucky Department of Education  
Questioned Costs: \$0

The Department of Housing and Family Services (HFS) is a sponsor of the Summer Food Service Program for Children (SFSPC). As a sponsor of this program, the agency is required to ensure that all sites serving meals are deemed eligible and approved by Kentucky Department of Education (KDE). This site guideline is in place to ensure the highest percentage of eligible children have access to this program.

During the audit of the Summer Food Service Program for Children (SFSPC), we tested fifty sites and noted eleven instances of sites that did not meet eligibility requirements were being provided food.

Of the eleven sites above, four of these sites were not properly approved on the KDE agreement and the remaining seven sites were not listed on the KDE Summer Site Summary. The lack of approval for the four sites was a result of KDE not performing the appropriate approval steps; and the remaining seven were a result of HFS not following up with KDE to ensure submitted sites were properly approved.

As a result of the above weakness, HFS paid for meals for ineligible or unapproved sites. This could result in HFS having to refund KDE for reimbursed meals served at ineligible or unapproved sites.

Per the United States Department of Agriculture (*USDA Summer Food Service Program for Children - Administrative Guidance for Sponsors*), the sponsor must provide documentation that proposed sites meet eligibility criteria required by law. The section on Documenting Site Eligibility states that “ Since the local school or district offices must certify that the data is accurate, sponsors should ask local schools or districts to provide the necessary figures on school or district stationery, with the signature of an authorized school official.” The sponsor should properly maintain this documentation along with all other required documentation.

**Recommendation**

We recommend that HFS implement proper oversight and ensure all sites submitted to KDE have the appropriate approval prior to meal service.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-SFSPC41-48: The Department Of Housing And Family Services Did Not Ensure All Eligible SFSPC Sites Were Properly Approved (Continued)**

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**Management's Response and Corrective Action Plan**

*HFS acknowledges the importance of providing SFSPC benefits to eligible and properly approved sites and spending funds in accordance with USDA requirements. In May 2008, HFS Summer Food procedures were reviewed and necessary updates implemented for compliance with the United States Department of Agriculture Summer Food Service Program for Children – Administrative Guidance for Sponsors. Management will provide oversight to review the KDE Summer Site Summary and KDE agreements for appropriate approval and eligibility confirmation of those sites selected to receive funding. In addition, HFS will maintain documentation from the approved sites pursuant to the USDA administrative guide in the grant files.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-CSBG42-49: The Department Of Housing And Family Services Did Not Provide Adequate Guidance When Distributing Federal Funds To Other Agencies**

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Federal Programs: CFDA #93.569 - Community Services Block Grant  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Eligibility  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$34,760

The Department of Housing and Family Services (HFS) gave \$45,000 of Community Services Block Grant (CSBG) funds to Louisville Metro Parks to provide summer camp scholarships/summer programs for low-income children. However, there was no grant agreement outlining the requirements for spending the federal funds. HFS did provide Metro Parks with the income limitations for spending CSBG funds via e-mail. However, Parks used their own income chart to avoid confusing their personnel with multiple schedules.

Since Metro Parks' income guidelines were above the federal CSBG Act limit of 125% of the federal poverty level, CSBG funds totaling \$34,760 were spent for children not meeting the program's federal guidelines. These funds were not spent in accordance with CSBG requirements because not only did Metro Parks fail to use the correct income guidelines, files did not contain sufficient documentation required to prove income and household size. A grant agreement between Metro Parks and HFS documenting the federal guidelines would have eliminated the confusion with income limits and documentation requirements set forth by the grant.

**Recommendation**

We recommend that HFS draft a grant agreement outlining all federal requirements when distributing federal money to other agencies.

**Management's Response and Corrective Action Plan**

*The collaboration between HFS and Metro Parks for summer camp scholarships was a pilot program during FY 08. Many of the planning issues between the two Metro agencies were not met, but HFS and Metro Parks feel that this collaboration had great potential to reach the low income children that qualify to benefit from this federal funding.*

*Interagency agreements will be developed when distributing federal money to other agencies and will outline all federal requirements. The agreement will contain all necessary information for the recipient agency to understand the requirements of the program set forth by the federal funding. In addition, HFS will monitor the files maintained by the recipient agency to ensure guidelines of the grant are being met.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-CSBG43-50: The Department Of Housing And Family Services Did Not Properly Spend Community Service Block Grant Funds**

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Federal Programs: CFDA #93.569 - Community Services Block Grant  
Federal Agency: U.S. Department of Health and Human Services  
Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principals  
Pass-Through: State Department of Health and Family Services  
Questioned Costs: \$2,361

The Department of Housing and Family Services (HFS) spent \$2,361 of Community Service Block Grant (CSBG) funds for unallowable expenditures, including bar association dues and a cell phone bill for the former Director of HFS. CSBG funds were also spent to provide centerpieces for a State of Poverty Luncheon and to provide food and drinks for a Community Action Partnership (CAP) board meeting. While the State of Poverty Luncheons are allowable expenditures per CSBG federal guidelines, the disbursements for centerpieces and refreshments for the CAP board meetings represent poor use of federal funds.

Auditors could not test payroll expenditures for allowability due to the numerous journal vouchers processed and the lack of documentation to support the journal vouchers. (See FINDINGS 08-HFS01-01 and 08-HFS04-04) As payroll comprises 55% of total CSBG grant expenditures, this seriously limits the scope of audit work performed. Auditors can provide no assurance that payroll expenditures charged to the CSBG grant are allowable.

Per the grant requirements, CSBG funds are to be used to reduce poverty, revitalize low-income communities, and assist low-income individuals and families. In addition, good internal controls dictate that grant funds should be managed properly.

**Recommendation**

We recommend that management ensure federal funds are spent in accordance with grant requirements. In addition, grant monies should be properly managed to provide for as many low-income clients as possible.

**Management's Response and Corrective Action Plan**

*HFS is committed to ensuring that all federal funding is spent in accordance with grant requirements. Management continues to explore alternative delivery methods to provide services to as many clients as possible, while adhering to funding requirements. The majority of the payments for the centerpieces were not paid with grant funds. The nominal amount that was charged to a grant fund will be reimbursed to the grant fund in the current fiscal year.*

*In May 2008, A Community Service Block Grant ("CSBG") monitoring was completed for the period FY 08 by the Kentucky Cabinet for Health and Family Services. There were no instances of non-compliance related to CSBG expenditures noted in the monitoring report.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**FINDING 08-CSBG43-50: The Department Of Housing And Family Services Did Not Properly Spend Community Service Block Grant Funds (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*A CSBG monitoring will be conducted by the Cabinet on February 3-5, 2009. HFS is currently reviewing the unallowable expenditures reference in this comment, and will discuss these issues with the funding source during that monitoring. See responses for comments FINDING 08-HFS-01[-01] and FINDING 08-HFS-04[-04] regarding payroll expenditures.*

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2008**

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Finding</u>	<u>CFDA Number</u>	<u>Comments</u>
FY 07	2007-1	Internal Control Over Grants in the Department of Family Services, Housing Division, Should Be Improved	14.128 14.239	Repeated In Findings: 08-HOME 07-15 08-HOME/CDBG 14-22 08-HOME/CDBG 16-23 08-HOME/CDBG 18-25 08-HOME/CDBG 21-28
FY 07	2007-8	Sub-recipient Monitoring Did Not Appear To Be Complete (CFDA No. 14.218 and 14.219)	14.128 14.239	Repeated In Finding: 08-HOME/CDBG 19-26
FY 07	2007-12	Ineligible Projects, Activities and Costs Were Noted in Community Development Block Grant Programs	14.128	This finding involves a monitoring report prepared by HUD. Metro has been working with HUD to resolve this finding.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT  
DEPARTMENT OF HOUSING AND FAMILY SERVICES  
ATTACHMENTS TO MANAGEMENT RESPONSE TO FINDINGS  
Fiscal Year Ended June 30, 2008**

Please click here to access  
Louisville/Jefferson County Metro Government's  
Attachments to Management Response to Findings

