

PERFORMANCE AUDIT REPORT

Department of Community *and* Economic Development

December 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

This page left blank intentionally



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

December 8, 2015

The Honorable Tom Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of the Department of the Auditor General's performance audit of the Pennsylvania Department of Community and Economic Development's (DCED) oversight of federally funded homelessness prevention and rehousing programs. Specifically, this audit covered DCED's administration and oversight of the Emergency Solutions Grants (ESG) program and the HOME Investment Partnership (HOME) Program authorized, in part, by the federal McKinney-Vento Homeless Assistance Act, as amended (McKinney-Vento act), and included the period July 1, 2011 through June 30, 2014, with updates through September 30, 2015, unless otherwise noted.

This audit was conducted under the authority of Section 402 of The Fiscal Code, 72 P.S. § 402, and in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We performed this audit to evaluate DCED's procedures for monitoring recipient's compliance with ESG and HOME program requirements. Also, we wanted to determine what actions DCED takes when a recipient of federal funds is noncompliant with ESG and HOME program requirements. Further, we wanted to determine if DCED reallocated any federal funds to other recipients and if those reallocations complied with ESG and HOME program requirements.

Regarding the ESG program, we found that DCED's failure to reallocate vital unspent funds in a timely manner jeopardizes funds for counties' homelessness prevention and rehousing programs. Also, DCED's contract delays result in unmet

Honorable Tom Wolf

December 8, 2015

Page 2

spending deadlines, jeopardizing available funding critical for homelessness prevention and rehousing programs. Further, deficiencies found in DCED's on-site monitoring of grantees increases the risk that ESG funds will not be used for their intended purpose of alleviating homelessness in Pennsylvania.

Regarding the HOME program, we (1) found that DCED failed to timely review and recapture unspent HOME funds, (2) identified deficiencies in its application review and award process, and (3) found that inadequate oversight of grantees increased the risk that HOME funds will not be used for providing quality affordable housing to low-income Pennsylvanians.

Our audit of DCED's implementation of these two crucial federal grant programs focused on possible improvements that DCED can make to improve grant procedures to help alleviate homelessness in Pennsylvania pursuant, in part, to the McKinney-Vento act. This act provides for various critical homeless services, including but not limited to emergency shelter, transitional housing, better quality permanent housing, job training, primary health care, and enhanced homeless children's access to education.

We offer 34 recommendations to improve DCED's administration and oversight of the ESG and HOME programs by alleviating identified deficiencies. DCED has had an opportunity to review the findings and recommendations contained within, and we have included its response in the report.

I want to thank DCED's management and staff for its cooperation and assistance during the audit. We will follow up at the appropriate time to determine whether and to what extent all recommendations have been implemented.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Eugene A. DePasquale
Auditor General

**Department of Community and
Economic Development**

**Table
of
Contents**

Executive Summary	ii
Introduction and Background	1
Finding One – <i>DCED’s failure to reallocate vital unspent funds of the Emergency Solutions Grants in a timely manner jeopardizes funds for counties’ Homelessness Prevention and Rehousing programs.</i>	7
Recommendations	11
Finding Two – <i>DCED’s contract delays result in unmet spending deadlines, jeopardizing available funding vital for homelessness prevention and rehousing programs.</i>	13
Recommendations	22
Finding Three – <i>Deficiencies found in DCED’s on-site monitoring of Emergency Solutions grantees increases the risk that ESG funds will not be used for their intended purpose of alleviating homelessness in Pennsylvania.</i>	24
Recommendations	30
Finding Four – <i>DCED failed to timely review and recapture unspent HOME program funds and deficiencies identified in its application review and award process.</i>	33
Recommendations	40
Finding Five – <i>Inadequate oversight of HOME grantees increases the risk that HOME funds will not be used for providing quality affordable housing to low-income Pennsylvanians.</i>	42
Recommendations	46
Agency’s Response and Auditors’ Conclusion	48
Appendix A – <i>Objectives, Scope, and Methodology</i>	60
Appendix B – <i>Audit Report Distribution List</i>	66

**Department of Community and
Economic Development**

Executive Summary

The Commonwealth of Pennsylvania through the Department of Community and Economic Development (DCED) is awarded funds for the Emergency Solutions (ESG) Grants and HOME Investment Partnerships (HOME) programs which are administered by the U.S. Department of Housing and Urban Development (HUD). In turn, DCED awards available ESG and HOME grant funds to local governments (grantees).

We undertook this audit to evaluate DCED's oversight of the ESG and HOME programs to ensure that funds are being appropriately used to alleviate homelessness in Pennsylvania and to provide quality affordable housing to low-income Pennsylvanians in need. Specifically, we evaluated DCED's procedures for monitoring grantees compliance with program requirements, what actions DCED takes when a recipient is noncompliant with program requirements, and whether reallocations of program funds to other recipients were in compliance with program requirements.

Our audit period was July 1, 2011, through June 30, 2014, with updates through September 30, 2015, unless otherwise noted.

The audit report contains five findings and 34 recommendations. Our finding results are summarized as follows:

***Finding
One***

DCED failed to immediately reallocate 2013 ESG funds that it recaptured from grantees based on its midway spending requirement analysis putting funds at risk of being forfeited to HUD. Additionally, DCED lacked written procedures and did not retain documentation of its analyses of the midway spending requirement for each grantee to support its evaluation and decision making for recapturing funds.

***Finding
Two***

There were significant delays in the length of time it took for DCED to fully execute contracts with local grantees. The 2014 ESG contracts were not fully executed until approximately 4 to 6 months after the contract term began, and there were similar delays in executing the 2013 ESG contracts. One 2014 ESG contract was not fully executed for over 9 months after the contract term began. In addition to these contract execution delays, DCED lacked communication with its grantees,

**Department of Community and
Economic Development**

resulting in unmet HUD spending deadlines, jeopardizing available funding to alleviate homelessness in Pennsylvania. This finding also notes deficiencies identified during the 2014 ESG program awarding process, including no formal written procedures that document the application review process and the recommendations to approve or deny applications includes subjective considerations.

***Finding
Three***

As of July 25, 2015, DCED did not conduct on-site monitoring for 19 of 59 ESG contracts awarded for program years 2011 to 2013 due to lack of staff. Additionally, deficiencies were identified with the on-site monitoring that was performed including not having formal written monitoring procedures, not documenting compliance with all ESG-specific criteria, not performing fiscal monitoring during on-site monitoring, and untimely communication and follow-up with grantees. DCED also lacked documentation to support that monitoring was performed and conclusions reached were reviewed by a supervisor prior to the monitoring report results being sent to the grantees. Failing to adequately complete monitoring timely could allow potential noncompliance to continue or delay the grantees' corrective action to be implemented, ultimately impacting services to help alleviate homelessness in Pennsylvania.

***Finding
Four***

DCED failed to timely review and recapture unspent HOME program funds from local grantees after the end of the contract terms. Timely recapture and disencumbering of unspent funds would allow DCED to distribute the funds to other eligible grantees who could use the funds to provide quality and affordable housing to low-income Pennsylvanians in need. Additionally, deficiencies were identified with DCED's 2014 HOME program application review and award process, including no formal written procedures, delay in recommending applications for funding, lack of an objective scoring system, weakness with segregation of duties over the application review and approval process, applicants not being informed that their applications have been denied, and documentation to support the recommendation to approve an application by the program manager could not be located for one applicant.

**Department of Community and
Economic Development**

***Finding
Five***

HUD reviewed DCED's oversight of the HOME Program in 2012 and then again in 2014 and reported that DCED did not maintain an adequate level of monitoring to maintain oversight over its local grantees. In response to HUD's findings, DCED began to implement corrective actions including implementing new fiscal monitoring procedures effective June 2014 and hiring a third party vendor in June 2015 to clear a backlog of 175 HOME program monitoring visits by May 31, 2016 at a cost of \$715,629. Our review of DCED's monitoring of grantees subsequent to HUD's reviews continued to find deficiencies through June 30, 2015, including backlogs of program monitoring visits, backlogs of fiscal reviews, and no established timeframes to complete quarterly invoice reviews. DCED's failure to provide adequate oversight of the HOME program increases the risk that grantees are not adhering to laws, regulations, and grant award requirements, and in turn, not meeting the objectives of the HOME program to expand the supply of quality affordable housing to low-income individuals and families in Pennsylvania.

DCED's response is included in the report. DCED generally agreed with the recommendations and stated that it is in the process of implementing improvements for its oversight of the ESG and HOME programs. We are encouraged by DCED's response and are confident that our recommendations will assist in strengthening program administration to assist families and individuals who are homeless or at risk of homelessness and to provide quality affordable housing to low-income Pennsylvanians in need.

**Department of Community and
Economic Development****Introduction
and
Background**

This audit report presents the results of our performance audit of the Pennsylvania Department of Community and Economic Development's (DCED) oversight of federally funded homelessness prevention and re-housing programs. Specifically, audit procedures covered DCED's administration and oversight of the Emergency Solutions Grants¹ (ESG) and HOME Investment Partnership² (HOME) programs. Our performance audit was conducted in accordance with applicable generally accepted government auditing standards.

Our audit had three objectives (see *Appendix A – Objectives, Scope, and Methodology* for more information):

- Evaluate DCED's procedures for monitoring recipient's compliance with program requirements.
- Determine what actions DCED takes when a recipient of federal funds is noncompliant with program requirements.
- Determine if DCED reallocated federal funds to other recipients and if those reallocations complied with program requirements.

In the sections that follow, we present brief background information on DCED and the ESG and HOME programs applicable to our audit objectives. This information is relevant in understanding DCED's administration and oversight of the programs.

**Background information on the
Pennsylvania Department of Community
and Economic Development**

The mission of the DCED is to foster opportunities for businesses to grow and for communities to succeed and

¹ 42 U.S.C. § 11371 *et seq.*

² 42 U.S.C. § 12741 *et seq.*

**Department of Community and
Economic Development**

thrive in a global economy. Additionally, its mission is to improve the quality of life for Pennsylvania citizens while assuring transparency and accountability in the expenditure of public funds.³ DCED also reports that its Center for Community Financing is dedicated to addressing homelessness in Pennsylvania and works closely around this issue with the U.S. Department of Housing and Urban Development (HUD) and other federal partners, as well as local governments, stakeholders, and service providers.

The Commonwealth of Pennsylvania through DCED is awarded funds each year by HUD for the ESG and HOME programs. DCED earmarks a small percent of the total funds awarded for its administrative costs and allocates the remainder of the funds to local governments (grantees). DCED is responsible for oversight of awards made to the local grantees to ensure funds are being used appropriately in compliance with program regulations.

During our audit period, the Director of the Center for Community Financing oversaw the divisions responsible for managing the ESG and HOME programs. Each division included a division chief and economic development analysts who were responsible for the day-to-day operations for managing each of the programs. These responsibilities include the grant application and award process, monitoring programs for grantees that are the recipient of ESG and/or HOME grant funds, and also processing invoices to reimburse grantees for expenditures made for program operations. In addition to these two divisions, DCED operates a Compliance Monitoring Division that is responsible for conducting financial-type reviews of local government grantees.

In June 2015, the Director of the Center for Community Financing retired, and subsequently, the Center for Community Financing was reorganized and split into the Center for Compliance, Monitoring, and Training

³ <http://newpa.com/about-us/>

**Department of Community and
Economic Development**

and the Center for Community Development
Operations under two separate directors.

**Background information on the Emergency
Solutions Grant Program**

The ESG program is authorized by Subtitle B of title IV of Chapter 119 (Homeless Assistance) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. § 11371 *et seq.*). This act was amended and reauthorized by the Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (HEARTH Act), which revised the former Emergency Shelter Grants program and renamed it as the Emergency Solutions Grants program. The former Emergency Shelter Grants program provided funds under the first allocation of federal fiscal year 2011 funds and earlier fiscal years. The revised ESG program provided funds under the second allocation of federal fiscal year 2011 and subsequent fiscal years. The HEARTH Act changed the program's focus from addressing the needs of homeless people in emergency or transitional shelters to assisting people to quickly regain stability in permanent housing after experiencing a housing crisis and/or homelessness.

The current ESG program is used to serve a broad range of homeless needs such as victims of domestic abuse, persons with disabilities, and displaced families. It is principally designed to be the first step to enable homeless individuals and families to move toward self-sufficiency, as well as prevention of homelessness. The purpose of ESG federal funding is to assist with street outreach, emergency shelter, rapid re-housing assistance, and homelessness prevention, which are defined as follows:

Street Outreach – ESG funds may be used for costs of providing essential services necessary to reach out to unsheltered homeless people; connect them with emergency shelter, housing, or critical services; and provide urgent, nonfacility-based care to unsheltered homeless people who are

**Department of Community and
Economic Development**

unwilling or unable to access emergency shelter, housing, or an appropriate health facility.⁴

Emergency Shelter – ESG funds may be used for costs of providing essential services to homeless families and individuals in emergency shelters, renovating buildings to be used as emergency shelter for homeless families and individuals, and operating emergency shelters.⁵

Rapid Re-housing – ESG funds may be used to provide housing relocation and stabilization services and short- and/or medium-term rental assistance as necessary to help a homeless individual or family move as quickly as possible into permanent housing and achieve stability in that housing.⁶

Homelessness Prevention – ESG funds may be used to provide housing relocation and stabilization services and short- and/or medium-term rental assistance necessary to prevent an individual or family from moving into an emergency shelter. This assistance may be provided to individuals and families who have an annual income below 30 percent of median family income for the area, and meet various other “homeless” or “at risk for homelessness” criteria, as defined by HUD.⁷

DCED is required to spend the ESG funds within 24 months after the date HUD signs the grant agreement. Each year DCED issues ESG application guidelines which provide the program description, eligibility and program requirements, and the application process. ESG program funding is awarded to local grantees on a competitive basis. DCED establishes a contract period that begins on the date of the award letter and ends approximately 21 to 22 months later to allow sufficient time to process invoices prior to the end of the allowable 24 month period.

ESG is a reimbursement program, and therefore, to receive the funds, grantees are required to submit invoices to DCED. DCED then reviews the invoices and reimburses the grantee for its allowable expenditures. Additionally, HUD requires DCED to monitor the activities of each ESG contract to assure

⁴ 24 C.F.R. 576.101.

⁵ 24 C.F.R. 576.102.

⁶ 24 C.F.R. 576.104.

⁷ 24 C.F.R. 576.103.

Department of Community and Economic Development

compliance with applicable Federal requirements and that performance goals are being achieved.⁸

Background information on the HOME Investment Partnership Program

The HOME Program is authorized by Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.⁹ The program was enacted for purposes including, but not limited to, expanding the supply of decent, safe, sanitary, and affordable housing for very low-income and low-income Americans.¹⁰

HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. HOME funds provide formula grants to States and localities that communities use to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. The program's flexibility allows States and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, or rental assistance or security deposits.¹¹

DCED administers the HOME funding the Commonwealth of Pennsylvania receives from HUD. DCED earmarks a small percent of the total funds awarded for its administrative costs and allocates at least 35 percent of the available funds to the

⁸ See former 24 C.F.R. 85.40(a). Please note that this regulation was deleted (i.e., reserved) in the Federal Register as of December 19, 2014. However, 24 C.F.R. § 85.1 (relating to Applicability of and cross reference to 2 CFR part 200) states as follows: “(b) **Federal awards made prior to December 26, 2014 will continue to be governed by the regulations in effect and codified in 24 CFR part 85 (2013 edition) or as provided by the terms of the Federal award.** Where the terms of a Federal award made prior to December 26, 2014, state that the award will be subject to regulations as may be amended, the Federal award shall be subject to 2 CFR part 200 [Office of Management and Budget Guidance, Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards].” [Emphasis added.] Therefore, it remains in effect for grantees awarded grants prior to December 26, 2014.

⁹ 42 U.S.C. 12701 *et seq.* and 24 C.F.R. § 92.1 *et seq.*

¹⁰ 42 U.S.C. § 12721 *et seq.*

¹¹ http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/programs/home

**Department of Community and
Economic Development**

Pennsylvania Housing Finance Agency (PHFA)¹² for rental projects and homebuyer projects.¹³ DCED subgrants the remainder to local government grantees, including cities, counties, boroughs, and townships. These grant funds commonly are used for home owner rehab projects for low-income individuals and families. During our audit period, DCED's contracts with local grantees spanned four or five year terms.

HOME is a reimbursement program, and therefore, to receive the funds, grantees are required to submit invoices to DCED. DCED reviews the invoices and approves grantees to draw reimbursement for its allowable expenditures directly from HUD. Additionally, HUD requires DCED to monitor the activities of each HOME contract to assure compliance with applicable Federal requirements and that performance goals are being achieved.¹⁴

¹² The scope of our audit did not include examining awards made by the Pennsylvania Housing Finance Agency. Our audit focused on the awards DCED made to local government grantees.

¹³ Pennsylvania Department of Community and Economic Development, HOME Program, Program Guidelines dated August 2014. *See* http://community.newpa.com/download/programs_and_funding/program_guidelines/HOME-Guidelines_2014F.pdf Accessed: September 22, 2015.

¹⁴ 24 C.F.R. 85.40(a). Please also see the prior on the subject.

**Department of Community and
Economic Development****Finding****1****DCED's failure to reallocate vital unspent funds of the Emergency Solutions Grants in a timely manner jeopardizes funds for counties' Homelessness Prevention and Rehousing programs.**

The Commonwealth of Pennsylvania through the Department of Community and Economic Development (DCED) is awarded funds for the Emergency Solutions Grants (ESG) program¹⁵ which is administered by the U.S. Department of Housing and Urban Development (HUD). In turn, DCED annually awards available ESG grant funds to local governments for: (1) the rehabilitation or conversion of buildings for use as emergency shelters for the homeless, (2) the payment of certain expenses related to operating emergency shelters, (3) essential services related to emergency shelters and street outreach for the homeless, and (4) homelessness prevention and rapid re-housing assistance.

DCED executes ESG contracts with the local governments (grantees), which stipulate the grant amounts and establish the contract terms. ESG is a reimbursement program and not a grant advance program. Therefore, to receive the funds, grantees are required to submit invoices at least quarterly to DCED. DCED then reviews the invoices and reimburses the grantee for its allowable expenditures. DCED does not advance grant funds to the grantees.

Additionally, DCED obligates/encumbers the full contract amount to reserve the funding for the grantee. As more fully described later, if DCED needs to reduce the contract amount, DCED will amend the contract and "recapture" the funds, which allows the funds to be given to other grantees. Additionally, DCED may recapture funds that grantees have not spent (unspent funds) as of the end of the contract period.

The table below shows available ESG funding, how it was distributed, and the amount of recaptured funds from the 2011 – 2014 program years.

¹⁵ The Emergency Solutions Grants Program is authorized by Subtitle B of title IV of Chapter 119 (Homeless Assistance) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. § 11371 *et seq.*).

**Department of Community and
Economic Development**

	ESG Program Year			
	2014	2013	2012	2011 ¹⁶
ESG Awards from HUD	\$5,049,113	\$4,470,452	\$5,816,323	\$5,082,869
HUD-Approved Reallocated Funds from Prior Years	\$815,000	\$0	\$0	\$229,083
Total Amount Available	\$5,864,113	\$4,470,452	\$5,816,323	\$5,311,952
Less: DCED Administrative Costs (3.75% of Grant)	\$189,341	\$167,641	\$218,112	\$149,907
Less: DCED Data Collection Costs (HMIS)	\$60,000	\$100,000	\$110,000	\$0
Amount Awarded to Grantees	\$5,614,772	\$4,202,811	\$5,488,211	\$5,162,045
Recaptured Funds from Grantees	Not Applicable	\$97,680 ¹⁷	\$517,905	\$426,581

The \$815,000, shown in the above table for the 2014 ESG program year as HUD-approved reallocated funds, is a portion of the \$944,486 (\$517,905 + \$426,581) recaptured funds from the 2011 and 2012 ESG program years that were unspent after the 24-month grant period. DCED rolled the \$815,000 into the total amount available for the 2014 ESG program year to be awarded to grantees through its normal awarding process. As a result, we evaluated the normal awarding process (See Finding 2). Management stated that if HUD does not permit DCED to reallocate the remaining 2011 and 2012 recaptured funds, totaling \$129,486 (\$944,486 - \$815,000) in a future grant year, then the funds will need to be returned to HUD.

Failure to immediately reallocate funds that DCED recaptured based on its midway spending requirement analysis puts funds at risk of being forfeited to HUD.

In addition to the 24-month grant period spending limit, imposed by HUD, DCED has a midway spending requirement.

¹⁶ For the 2011 program year, DCED received funding for both the Emergency Shelter Grants and the Emergency Solutions Grants Programs. The amounts included in the chart for the 2011 year reflect the combined total of the two grants.

¹⁷ This figure represents the amount of recaptured funds from grantees during the contract period only. Additional funds may be recaptured after the end of the contract period upon final determination of total unspent funds.

Department of Community and Economic Development

According to the special conditions identified in the ESG contracts, “Grantees must . . . expend and invoice at least 50% of the contract funds no later than” 12 months after the contract period start date. Although this contract requirement has been incorporated into these contracts since the inception of the ESG program in 2011, DCED did not enforce this requirement during the 2011 and 2012 ESG program years.

However, in the 2013 ESG program year, which began on September 26, 2013, DCED evaluated and enforced this requirement. According to the 2013 contracts, “If [DCED] deems appropriate, funds not expended as of September 25, 2014 may be disencumbered and reallocated to another eligible grantee.” We requested the written analyses to support these evaluations; however, DCED indicated that they were not retained. Therefore, we could not audit this process. Decision-making documentation must be retained to allow an independent third party to review and evaluate the documentation to ensure it was performed accurately and that the decisions reached were reasonable.

Although the analysis documentation was not retained, DCED was able to provide copies of some correspondence regarding the grantees underspending ESG funds. We found that DCED corresponded by email with five grantees that had underspent ESG funding almost 15 months into the grant period, which was almost 3 months after the midway spending requirement, see below table:

Grantees with ESG Funds Recaptured Midway through Grant	Original Contract Amount	50 Percent Of Original Contract	Spending per Email	Potential Recapture Amount	Actual Recaptured Amount
Adams County	\$387,588	\$193,794	\$148,305	\$50,000	\$50,000
Clinton County	\$260,000	\$130,000	\$108,348	\$50,000	\$0
Columbia County	\$202,956	\$101,478	\$69,668	\$60,000	\$27,680
Cumberland County	\$530,756	\$265,378	\$215,392	\$100,000	\$0
Greene County	\$50,000	\$25,000	\$11,394	\$15,000	\$20,000
Total Recapture Amounts				\$275,000	\$97,680

The emails indicated that, based on what had been spent to date and that there were seven months remaining in the contract period, DCED intended to reduce the contract by a certain amount unless the grantee provided “a comprehensive fact-based expenditure schedule to have the funds spent by the end of the contract” which needed to be approved by DCED. As

**Department of Community and
Economic Development**

noted in the table, DCED reduced or eliminated the actual recapture amounts for three grantees, while increasing or unchanging the actual recapture amounts for two grantees.

Although all three grantees who had funds recaptured were in agreement that they were not going to spend these funds prior to the end of the contract period, we question whether some or all of these funds may have been spent by these grantees if not for the delays in executing contracts as discussed in Finding 2.

As noted in the table, DCED ultimately recaptured \$97,680 from the midway spending analysis. However, DCED failed to reallocate this funding to other grantee(s) during the contract period. According to DCED, there was no plan to reallocate the funds immediately because none of the other existing grantees indicated that they needed additional funding. Also, DCED indicated that it was better to have the money recaptured and on hand if an existing grantee would indicate additional funds were needed.

While having recaptured funds on hand could be useful if a grantee had a need for additional funds, DCED did not communicate the availability of additional funds to grantees. Additionally, not reallocating the funds during the contract period puts the funds at risk of being forfeited to HUD, and therefore they are not used for their intended purpose. Fortunately, according to DCED, HUD has agreed to allow a portion of the 2013 unspent funds to be utilized in a future ESG program year. As further explained in Finding 2, while HUD has approved multiple requests for extensions to expend funds, indications are that future extensions may not be granted. Therefore, DCED should develop a plan on how to reallocate the funds in a more timely manner. Such a plan could include the following steps:

1. Proactively reach out to existing grantees to see if they could use additional funding, instead of waiting for grantees to ask if any additional money is available.
2. Have a waiting list of applicants that applied, but were not initially funded, or applicants that were partially funded, to utilize if reallocated funds become available.

**Department of Community and
Economic Development**

3. With HUD's approval, reach out to the grantees from the prior program year (2012 in this case) to see if they could utilize additional funds.
4. With HUD's approval, reach out to the grantees from the next program year (2014 in this case) to see if they could utilize additional funds.

These steps would help DCED maximize the amount of ESG funding available to provide as much assistance as possible to alleviate homelessness in Pennsylvania.

Lack of written procedures.

DCED acknowledged that, due to staffing limitations, it does not have written procedures regarding (1) evaluating the grantees expenditures after one year to determine whether ESG funds should be recaptured and (2) the process of recapturing the funds. Written procedures are an integral part of internal controls because they provide specific guidance to staff to ensure that processes are performed properly, consistently, and timely and are also properly documented to allow for review by other entities, such as auditors. Further, supervisory review is necessary to ensure the procedures performed were completed in accordance with the written procedures. DCED's failure to have written procedures increases the risk of DCED staff improperly or inconsistently conducting evaluations of the necessity of recapturing funds.

Recommendations**We recommend that DCED:**

1. Perform the midway spending requirement analysis at the 50% 12-month spending deadline and timely correspond with appropriate grantees who failed to meet this requirement.
2. Maintain the midway spending requirement analysis and related decision-making documentation.

**Department of Community and
Economic Development**

3. Be proactive in developing a plan to reallocate the funds recaptured, as a result of the midway spending requirement analysis, during the contract period. Consider the procedures suggested in the finding.
4. Develop written procedures for performing the midway spending requirement analysis and the resulting recapture of funds process. These procedures should include, but not be limited to, the following:
 - a. Performing the analysis, including when the analysis should be performed.
 - b. Ensuring documented supervisory review of the analysis and conclusions reached.
 - c. Developing a plan to reallocate the recaptured funds, ensuring that the process is objective and unbiased.
 - d. Timely contacting grantees that failed to meet the 50% 12-month spending requirement.
 - e. Timely amending the contracts for any funds recaptured.

Agency's Response and Auditors' Conclusion

DCED's response to this finding and its recommendations are located in the *Agency's Response and Auditors' Conclusion* section of the audit report.

**Department of Community and
Economic Development**

Finding 2

DCED’s contract delays result in unmet spending deadlines, jeopardizing available funding vital for homelessness prevention and rehousing programs.

The HUD awards Emergency Solutions Grants (ESG) Program¹⁸ funds each year to the Pennsylvania’s DCED. DCED earmarks a small percentage of the total funds awarded for its administrative costs and subgrants the remainder to general purpose units of local government, including counties, cities, boroughs, towns, townships, and municipalities. Grant funds can be used to: (1) to provide permanent housing, (2) to operate and rehab emergency shelters, (3) to provide street outreach for the homeless, (4) to prevent homelessness, and (5) for administrative activities.

As part of our audit objective to determine whether reallocations of ESG funds complied with program requirements, we noted that DCED recaptured a total of \$944,486 from local government grantees (grantees) mostly due to the funds being unspent after the close of the 2011 and 2012 grants. DCED received approval from HUD to reallocate \$815,000 of the \$944,486 to the 2014 ESG program awards to grantees, thus increasing the total amount available to be awarded to grantees for the 2014 ESG program year through its normal application review and awarding process. Therefore, to achieve our audit objective, we evaluated DCED’s 2014 applications’ review and awarding process.

The ESG funds available and awarded in 2014 are as follows:

2014 ESG Award from HUD	\$5,049,113
Reallocation of 2011 and 2012 unspent funds	815,000
Subtotal ESG Funds Available in 2014	\$5,864,113
(Less) DCED Administrative and HMIS ¹⁹ Budget	(249,341)
Total Amount Awarded to 25 Grantees ²⁰	\$5,614,772

¹⁸ The Emergency Solutions Grants Program is authorized by Subtitle B of title IV of Chapter 119 (Homeless Assistance) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. § 11371 *et seq.*).

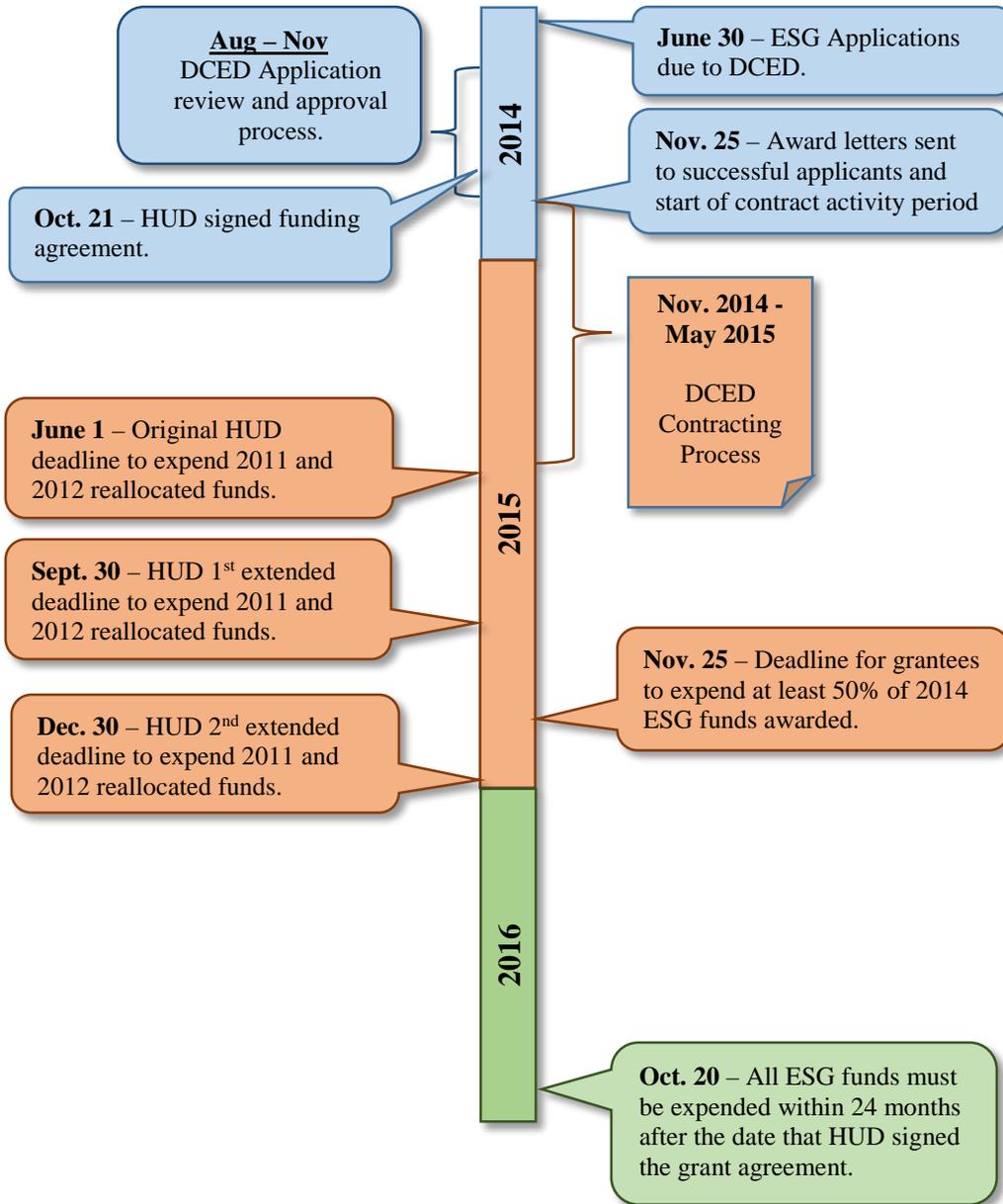
¹⁹ Homeless Management Information System (HMIS) is a local information technology system used to collect client-level data and data on the provision of housing and services to homeless individuals and families and persons at risk of homelessness.

²⁰ One grantee was awarded two contracts. Therefore, there was a total of 26 contracts awarded to grantees.

Department of Community and Economic Development

The timeline below illustrates the critical dates, deadlines, and timeframes for the awarding and spending of the 2014 ESG funds as well as spending of the 2011 and 2012 reallocated funds.

2014 ESG Program Timeline



Source: Developed by the Department of the Auditor General.

**Department of Community and
Economic Development**

The results of our test work of the 2014 ESG program application review and award process disclosed the following:

- Delays in fully executing signed contracts with grantees.
- Lack of communication by DCED to grantees and delays in grantee contract execution result in unmet HUD spending deadlines.
- Deficiencies in the 2014 ESG program awarding process.

Delays in fully executing signed contracts with grantees.

Once DCED completed its 2014 ESG application review process and awards were approved by the Deputy Secretary, award letters were sent to 25 successful applicants on November 25, 2014. DCED then began the following process of executing contracts: (1) DCED prepares the contracts and mails them to the grantees for signature; (2) grantees sign and return the contracts to DCED; and (3) signatures are obtained from DCED's legal counsel, DCED's Secretary or Deputy Secretary, and the Pennsylvania Office of the Budget, Office of Comptroller Operations. Once all signatures are obtained the contract is considered fully executed and a copy is provided to the grantee.

We selected 10 of the 25 grantees awarded 2014 ESG program funds to evaluate DCED's contracting process. The chart below summarizes the length of time in weeks for key stages in the contract process from mailing the award letters to the grantee until the contracts were fully executed and provided to the grantees.

**Department of Community and
Economic Development**

Grantee	Weeks after Award Letter that contract was mailed to grantee	Weeks for grantees to sign and return contract	Weeks to obtain Commonwealth signatures and distribute contracts	Total weeks to fully execute and distribute contract
1	8	7	2	17
2	8	6	3	17
3	8	5	4	17
4	8	1	8	17
5	8	5	4	17
6	8	2	7	17
7	8	11	5	24
8	18	2	4	24
9	20	3	4	27
10	8	30	a/	a/

Notes:
a/ Contract was not fully executed as of August 31, 2015, or over 9 months after the start of the contract term.

Of the 10 grantees reviewed, we found that there was no fully executed signed contract on file for one, as of August 31, 2015, even though DCED indicated that a contract was mailed to the grantee on January 22, 2015. We also noted that there were no monies expended from the funds awarded to this grantee through August 2015. We inquired of DCED management as to why there was no executed contract. Management did not appear to be tracking the status of the contract or be aware that there was no executed contract and did not follow up with the grantee until after our inquiry.

The grantee in question stated that it never received the contract and did not follow up with DCED regarding the contract status due to a key employee being out on extended leave. DCED management stated that if the contract was not received after one year when 50 percent of the funds must be expended, then the grantee would be contacted to question the lack of invoices. Therefore, since it had been less than 10 months, DCED had not followed up yet. This is clearly not an effective method to ensure contracts are fully executed in a timely manner.

For the remaining nine contracts tested, we found significant delays in the length of time it took to fully execute contracts with grantees, which jeopardizes the availability of funds for vital services to assist Pennsylvanians experiencing a housing crisis and/or homelessness and severely impacts the grantees ability to meet HUD and DCED spending deadlines, risking loss of funds. Without availability of funds, homeless persons may not be provided emergency shelters, services, or assistance

**Department of Community and
Economic Development**

necessary to get permanent housing and alleviate homelessness in Pennsylvania. While the contract term begins on November 25, 2014, the same date as the award letter, the contracts were not fully executed until 17 to 27 weeks, or approximately 4 to 6 months, after this date.

DCED management attributed the delays in processing the contracts to a number of factors which included delays with the grantees returning their signed contracts to DCED and the transition in DCED's leadership, following the change in the Pennsylvania Governor's Office, during the contract approval process. However, our testing found that the larger delays were with the timeframe for DCED to prepare and mail the contracts to the grantees for signature. In fact, based on the chart on the previous page, we found for the nine contracts tested the average time for DCED to prepare and mail the contracts was 10.4 weeks compared to 4.7 weeks for the grantees to return the signed contracts. Additionally, DCED averaged another 4.6 weeks to obtain all Commonwealth signatures and provide the executed contracts to the grantees.

Further, we acknowledge that a transition in DCED's leadership occurred due to a newly elected Governor taking office in January 2015; however, the program personnel who conduct the work did not change. For comparison, we reviewed the prior year 2013 ESG program contracting process and found similar delays. Therefore, the delay in the contract processing is not isolated to the 2014 program year when there was a change in administration. Additionally, administrative changes should not be an excuse for delays which affect providing assistance to those who are homeless or are having a housing crisis.

DCED management stated that grantees are cautious about expending funds until a fully executed (signed) contract is received. In the award letters, DCED cautions the grantees that DCED is not obligated to disburse any funds for reimbursement until after the contract is fully executed and that any action taken or work performed prior to the contracts full execution would be performed at the grantee's own risk. As a result, one grantee sent an email to DCED expressing concerns about expending funds paid from their line of credit without having a signed contract, which supports the importance of executing contracts with the grantees in a timely manner.

**Department of Community and
Economic Development**

Lack of communication from DCED and delays in contract execution result in unmet HUD spending deadlines, jeopardizing available funding to alleviate homelessness in Pennsylvania.

Of the 25 grantees awarded ESG program funds in 2014, DCED designated 9 grantees to receive a portion of their award from the \$815,000 of 2011 and 2012 reallocated funds. While ESG amounts are required to be expended within 24 months after the date HUD signs the grant agreement with DCED, which is October 20, 2016 for the 2014 grant, HUD set a much earlier spending deadline of June 1, 2015 for expending the 2011 and 2012 reallocated funds. Any grant amounts that are not expended by these deadlines may be recovered and reallocated by HUD for use in accordance with guidelines.²¹

As previously stated, DCED took 4 to 6 months after the November 25, 2014 award letters to fully execute contracts. This delay provided the 9 grantees receiving the 2011 and 2012 reallocated funds very little time to meet the June 1, 2015 spending deadline. In addition to the contracting delay, we found that DCED did not formally communicate the June 1, 2015 spending deadline to the grantees, resulting in none of the 9 grantees knowing about or able to meet the spending deadline. In fact, as of June 1, 2015, not a single dollar was invoiced and processed by any of the 9 grantees.²²

The award letters notified the grantees that they were being awarded 2014 ESG funds, but DCED failed to inform the 9 grantees that a portion of their award was from the 2011 and 2012 reallocated funds with the earlier spending deadline of June 1, 2015. Additionally, the fully executed contract also did not specify that a portion of the funding was reallocated 2011 and 2012 funds with a shorter spending deadline. DCED management acknowledged that they only had an email dated February 19, 2015 to support that one of the nine grantees was informally notified of the June 1, 2015 expenditure deadline.

²¹ Subsection (b) of 24 C.F.R. § 576.203 (related to Obligation, expenditure, and payment requirements).

²² Per HUD's Integrated Disbursement and Information System PR05 and PR91 Activity Reports.

**Department of Community and
Economic Development**

DCED management indicated that the 2011 and 2012 reallocated funds deadline was not incorporated into the grantee contracts so that DCED could have more flexibility over moving the reallocated funds to a different grantee if it appeared funds would not be expended in the allotted time rather than risk unspent funds being returned to HUD. However, not communicating the spending deadlines to grantees contributed to the fact that there were no expenditures by the June 1, 2015 deadline for homelessness prevention and rehousing assistance for Pennsylvanians in need.

As a result, DCED requested and HUD subsequently approved an extension of the deadline until September 30, 2015 to expend these funds. DCED contacted each of the 9 grantees through email to inform them of the extended deadline to expend the 2011 and 2012 reallocated amounts. We reviewed HUD's Integrated Disbursement and Information System PR05 and PR91 activity reports through September 30, 2015, and found that the 9 grantees expended all but approximately \$51,000 of the \$815,000 of reallocated funds. DCED also applied an additional \$10,000 of expenditures from three other grantees to the reallocated balance, leaving a remaining unspent balance of \$41,000 at September 30, 2015. DCED asked HUD again for another extension due to issues with processing invoices which arose due to the state budget impasse. Due to this unique circumstance, HUD granted an extension until December 30, 2015. It appears that all of the 2011 and 2012 reallocated funds should be expended by this date.

It is clear based on HUD's response in granting DCED extensions that if DCED continues to not meet spending deadlines, future extensions may not be granted. DCED should not continually place reliance on HUD extending deadlines. The importance of making funds available to grantees for emergency shelters, homelessness prevention, rapid re-housing, and street outreach to assist persons in need underscores the necessity for contracts to be executed in the least amount of time in order to allow for grantees to provide these vital services and to expend the funds within the established timelines. DCED must have a system of internal controls in place to ensure contracts are being executed timely and important information, such as spending deadlines and special

**Department of Community and
Economic Development**

conditions, are communicated upfront at the time of the award and in the contract.

**Deficiencies identified during a review of the 2014
ESG program awarding process.**

ESG program funding is awarded on a competitive basis. Each year DCED issues application guidelines which provide the program description, eligibility and program requirements, and described the application process.

DCED received 31 applications for the 2014 ESG program funds from various units of local government of which 26 were approved for funding.²³ DCED's process for reviewing applications includes a scoring sheet and a form to document consideration of past performance. We reviewed 10 of the 31 applications received by DCED, 7 that were approved for funding and 3 that were denied. Our review of DCED's awarding process noted the following deficiencies:

- **No formal written procedures that document the application review process.**

DCED management explained that the reason no formal procedures have been documented is because the ESG program was new and transitioning when the 2014 grants were being awarded. However, we noted that 2014 is actually the fourth year that funds have been awarded under the current ESG program. Therefore, we believe that there was sufficient time for DCED to implement written procedures.

- **Recommendations to approve or deny applications include subjective considerations.**

We noted that all three of the denied applications reviewed received higher scores than other applications which were approved. For each of the denied

²³ One local government submitted two separate applications and both were approved. Therefore, there were a total of 25 local governments whose applications were approved.

**Department of Community and
Economic Development**

applications, there was documentation to support the decisions made; however, the recommendations to deny the applications included other subjective considerations based on the applicants' past performance of previous ESG contracts. These subjective considerations were not factored into the applicants' score, but were considered separately. Additionally, for the applications approved for funding, these subjective considerations may affect the amount awarded. There are no formal written guidelines or procedures as to how these other performance issues should be considered and final recommendations are made.

Further, when recommendations made by the program managers are forwarded to the Director of the Center for Community Financing for review and approval, the scoring of each applicant is not provided. The documentation provided does not show that the denied applications received a higher score than others approved. In order to properly review and approve the recommendations, the director should have all of the information, including scoring, especially since other subjective considerations overrode the scores.

Management must have an effective system established to manage risk and promote accountability to ensure the awards made to grantees for ESG funding are done in a fair, consistent, and unbiased manner. An effective system includes documented policies and procedures. The subjective nature for portions of determining which applicants will be awarded funds and the amount each will be funded further underscores the need for DCED management to establish written documentation outlining the procedures and providing guidelines for items to be considered when determining the amount to fund an applicant. The lack of written standard operating procedures and guidelines may lead to inconsistent award procedures being applied when applications are reviewed. Additionally, the transfer of knowledge to new staff may be hindered without documented policies, procedures, and guidelines. DCED management acknowledged the lack of written procedures and agreed that the procedures should be documented.

**Department of Community and
Economic Development**

Recommendations

We recommend that DCED:

1. Expedite the contract execution process to allow grantees the maximum time possible to expend program funds within the allowable contract period.
2. Develop an effective tracking system to monitor the various phases of the contracting process to ensure that all contracts are fully executed in the most expeditious time possible.
3. Follow-up with grantees when signed contracts are not returned timely.
4. Communicate all expenditure deadlines to grantees in both the award letter and the contract to afford grantees adequate time to expend funds and submit invoices to DCED requesting reimbursement within the required deadlines.
5. Develop written policies and procedures for ESG application review process. These procedures should include, but not be limited to:
 - a. Completion of established DCED checklists to document the completeness of the application submitted by each applicant.
 - b. Completion of established DCED forms to summarize the applicant's prior performance for any previous ESG contracts which is used when considering awarding future ESG funds.
 - c. Process for scoring points and ranking each application during the review process.
 - d. Process for determining which applicants to recommend for funding based upon the checklists, forms, and scoring.
 - e. Criteria and guidelines for determining amount of funds to be awarded to recommended applicants.
6. Consider incorporating the evaluation of applicants' past contract performance into the objective scoring system.

**Department of Community and
Economic Development**

7. Provide the director approving awards with all relevant information including the scores for each applicant in order to allow for a more informed decision about the recommendations for awarding ESG funds.

Agency's Response and Auditors' Conclusion

DCED's response to this finding and its recommendations are located in the *Agency's Response and Auditors' Conclusion* section of the audit report.

**Department of Community and
Economic Development****Finding****3****Deficiencies found in DCED's on-site monitoring of Emergency Solutions grantees increases the risk that ESG funds will not be used for their intended purpose of alleviating homelessness in Pennsylvania.**

The HUD annually awards Emergency Solutions Grants (ESG)²⁴, which requires the Pennsylvania's DCED to spend the ESG funds within 24 months after the date HUD signs the grant agreements with DCED. As described in Finding 2, DCED then awards ESG grants to local governments for various projects and executes contracts with the local governments (grantees). DCED establishes a contract period that begins on the award letter date and ends approximately 21 months later to allow sufficient time to process invoices prior to the end of the allowable 24 month period.

Management must maintain an effective internal control system, including written policies and procedures, documented supervisory oversight, and effective monitoring to ensure the program is operating efficiently and effectively and is in compliance with applicable laws and regulations. In this case, HUD requires DCED to monitor the activities of each ESG contract. HUD regulation 24 C.F.R. 85.40(a) states:

Grantees²⁵ are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.²⁶

²⁴ The Emergency Solutions Grants Program is authorized by Subtitle B of title IV of Chapter 119 (Homeless Assistance) of the McKinney-Vento Homeless Assistance Act (42 U.S.C. § 11371 *et seq.*).

²⁵ In this context, DCED is the grantee of HUD HOME Program funds. DCED then subgrants a portion of the funds to local governments.

²⁶ Please note that this regulation was deleted (i.e., reserved) in the Federal Register as of December 19, 2014. However, 24 C.F.R. § 85.1 (relating to Applicability of and cross reference to 2 CFR part 200) states as follows: "(b) **Federal awards made prior to December 26, 2014 will continue to be governed by the regulations in effect and codified in 24 CFR part 85 (2013 edition) or as provided by the terms of the Federal award.** Where the terms of a Federal award made prior to December 26, 2014, state that the award will be subject to regulations as may be amended, the Federal award shall be subject to 2 CFR part 200 [Office of Management and Budget Guidance, Part 200. Uniform Administrative Requirements, Cost

Department of Community and Economic Development

In other words, DCED is to conduct monitoring during the contract period, including on-site monitoring. However, as noted below, DCED did not conduct on-site monitoring for certain contracts or did not timely conduct on-site monitoring (i.e., after the contract period ended).

Delays in conducting on-site monitoring of grantees.

During the audit period, DCED conducted on-site monitoring of grantee activities for ESG contracts awarded funding in the 2011, 2012, and 2013 program years²⁷. The following table summarizes the number of contracts monitored by year and when, if any, monitoring occurred in relation to the end of the contract period:

ESG Program Year	Contract Period Ended	Number Of Contracts ²⁸	Number of times monitoring was completed...		
			During the Contract Period	After the Contract Ended	None as of July 25, 2015
2011	October 16, 2014	11	5	2	4
2012	August 22, 2014	30	21	2	7
2013	July 25, 2015	18	10	0	8
Totals		59	36	4	19

As of July 25, 2015, of the 59 contracts executed with ESG grant funds from the 2011, 2012, or 2013 program year, 36 (61 percent) had on-site monitoring conducted by DCED during the contract period; 4 (7 percent) had on-site monitoring conducted by DCED after the contract period ended; and 19 (32 percent) had no on-site monitoring by DCED. Therefore,

Principles, and Audit Requirements for Federal Awards].” [Emphasis added.] Therefore, it remains in effect for grantees awarded grants prior to December 26, 2014.

²⁷ The 2014 program was less than one year old and DCED had not begun to monitor these contracts.

²⁸ Grantees can be awarded contracts in multiple years. When this was the case, DCED conducted one monitoring review to cover the multiple years that the grantee had contracts with DCED. The 59 contracts listed in the table were executed with 43 grantees. Of the 43 grantees awarded contracts, 29 were monitored by DCED.

**Department of Community and
Economic Development**

DCED did not comply with the previously noted HUD regulation for more than 30 percent of these contracts.

DCED management indicated that the delay in monitoring ESG contracts was due to a lack of staff; however, DCED management is working on eliminating the on-site monitoring backlog and expects to be completed with the 19 contracts noted in the table by December 2015.

Failure to conduct on-site monitoring or to conduct on-site monitoring timely may result in the ESG funds not being used for their intended purpose, including: (1) to provide permanent housing; (2) to operate and rehab emergency shelters; (3) to provide street outreach for the homeless; and (4) to prevent homelessness. Additionally, it precludes DCED from ensuring that the grantees administered the ESG funds in compliance with Federal regulations and the provisions of the contracts with DCED.

Deficiencies identified with on-site monitoring.

DCED monitors the activities of each ESG contract by going on-site to the local governments and performing various procedures (on-site monitoring). DCED sends a letter informing the grantee that on-site monitoring has been scheduled and what grant years will be covered. Additionally, DCED sends several monitoring guides that need to be completed by the grantee prior to DCED's program analyst conducting the on-site monitoring. The guides contain questions pertaining to the grantee's compliance with grant requirements.

During on-site monitoring, the program analyst utilizes the grantee's answers to the guides' questions to ask follow-up questions and to obtain documentation to support the answers provided to the questions. Before leaving the grantee's office, the program analyst discusses the preliminary results of the review. At a later date, DCED sends a report letter to the grantee with the results of the on-site monitoring. If applicable, the letter requests the grantee to submit a corrective action plan for any findings and/or concerns no later than 30

**Department of Community and
Economic Development**

days from the receipt of the letter. Once evaluated, DCED will respond as to whether or not the corrective action plan is acceptable or whether there are changes needed.

With regard to this on-site monitoring process, we identified the following deficiencies:

No formal written monitoring procedures exist.

DCED acknowledged that it does not have formal written monitoring procedures, although it has a draft “Administrative and Monitoring Procedures Manual.” With regard to the ESG program, the manual is incomplete. It only contains some general procedures that affect all programs with nothing specific to the ESG program. Failure to have formal written procedures increases the risk that the on-site monitoring may be performed inconsistently or the conclusions reached may be inaccurate.

HUD has not issued updated guidance for the ESG program, resulting in DCED not documenting compliance with all ESG-specific criteria.

The ESG program replaced the Emergency Shelter Grants program in 2011. Although the programs are similar, the ESG program allows more flexible options for assisting with the homeless. Therefore, the criteria for both programs are similar, but there is some additional criteria for the ESG program.

As a result, DCED has been utilizing many of the old Emergency Shelter Grants program guidelines because HUD has not yet issued guidance for the ESG program. HUD has indicated that the guidance will be issued in the fall of 2015. Additionally, DCED is using a document that lists ESG-specific criteria to use when conducting on-site monitoring. However, DCED staff acknowledged that, in some cases, only some of the new ESG-specific criteria that is reviewed is documented. Specifically, criteria would only be documented if they noted non-compliance by the grantee. Therefore, documentation does not exist to support the program analyst monitoring all ESG-specific criteria.

**Department of Community and
Economic Development**

Fiscal monitoring is not included in DCED's on-site monitoring.

Based on our review of the 12 HUD monitoring guides created for the Emergency Shelter Grants program, we found that DCED's on-site monitoring analysts do not use the two guides related to fiscal monitoring. When we inquired as to why the guides were not completed, DCED management responded that they were not completed during on-site monitoring because DCED's Compliance Monitoring Division (division) performs the fiscal monitoring during their review of grantees. However, the division is not targeting ESG grantees, as noted in Finding five.

As a result, on-site fiscal monitoring of ESG grantees would only be completed if the grantee also received Community Development Block Grant program monies. DCED management indicated that it is aware that ESG fiscal monitoring reviews need to be performed. However, it believes that for the present time, the extensive reviews performed by ESG staff on the grantees' invoices and support documents prior to reimbursements being approved compensates for the lack of fiscal monitoring review. We disagree in part. Even though the process of reviewing the detailed invoices prior to payment would address some of the items that would be covered in fiscal reviews, it would not address other items, such as the effectiveness of the grantee's internal control structure or the accountability of the funding.

Untimely communication and follow up, as well as a lack of documentation.

Of the 29 grantees for which DCED conducted on-site monitoring (representing the 40 contracts identified in the previous table), only 20 grantees had been issued report letters as of July 16, 2015. DCED management stated that they are currently working on the backlog of report letters that still need to be issued to grantees. We utilized this population of 20 grantees to select 8 grantees (encompassing 10 contracts) for testing of the effectiveness of DCED's on-site monitoring. We reviewed DCED's files for these 8 grantees and noted the following deficiencies:

**Department of Community and
Economic Development**

- The entrance letter and monitoring documents could not be located for one grantee; however the report letter and grantee response was in the file. DCED stated that on-site monitoring occurred, but the documentation may have been misfiled.
- The report letters, which provide the results of the on-site monitoring, for 5 grantees were not issued until 7 to 24 months after the on-site monitoring completion date. The report letters for the remaining 3 grantees were issued in less than 3 months. DCED indicated that the delays were due to a lack of staff and the fact that on-site monitoring for the ESG program was new. In addition, since the preliminary results are presented to the grantee, the priority was to conduct the on-site monitoring. However, issuing the report letters more than 3 months after the on-site monitoring completion date is untimely. Failing to timely issue report letters may result in continued deficiencies/non-compliance and may delay the development of corrective action plans.
- As of mid-August 2015, DCED received corrective action plans from only 5 grantees. Of these 5, 2 were received within the required 30 days and 3 were received between 5 and 51 days after the deadline. DCED did not respond to any of the 5 grantees indicating whether the corrective action plans were acceptable, even though the corrective action plans had been received as early as April 2015. DCED management stated that they are currently drafting a response letter to one of the grantees. This response letter will then be used as a guide to draft future response letters to grantees.
- DCED did not follow up with the 3 grantees that had not responded to report letters, even though the report letters were issued in January 2015 for 2 grantees and June 2015 for 1 grantee. DCED staff stated that they intended to contact the 3 grantees, however, they have not yet done so.

**Department of Community and
Economic Development**

- There is no documentation on file to support that the monitoring review work performed and conclusions reached were reviewed by a supervisor prior to the report letter being sent to each grantee. The report letters issued to grantees indicate that the supervisor is copied on the report letter at the time that it is sent to the grantee. Additionally, ESG staff stated that the results of monitoring reviews are discussed verbally between the analyst performing the review and their supervisor, however these discussions are not documented.

The on-site monitoring process is an important management control to ensure grantees are spending the grant funds appropriately and in compliance with applicable laws and regulations. Failing to adequately complete the process timely could allow noncompliance to continue or delay the grantee's implementation of corrective action, ultimately impacting services to help alleviate homelessness in Pennsylvania. Additionally, failing to have the process adequately documented, including supervisory review and approval, could lead to inaccurate conclusions being reached and communicated, as well as that it will not allow an independent third party to validate that the management controls are functioning.

Recommendations**We recommend that DCED:**

1. Conduct on-site monitoring of ESG grantees to eliminate the 2011, 2012, and 2013 ESG program years' backlog by December 31, 2015.
2. Develop and execute an on-site monitoring schedule for the 2014 ESG program year and future program years that allows on-site monitoring to be completed during the contract period.
3. Finalize written policies and procedures for the ESG on-site monitoring process. These procedures should include, but not be limited to, the following:

**Department of Community and
Economic Development**

- a. Timelines for conducting on-site monitoring, issuing report letters, and responding to grantees' corrective action plans.
 - b. Supervisory review and approval of the on-site monitoring documentation and conclusions reached prior to issuing the report letters to the grantees.
 - c. Procedures for following up with grantees that do not respond timely to report letters that contain findings, concerns and recommendations.
 - d. Criteria and guidelines for the compliance areas being monitored.
 - e. The extent of documentation needed to conclude as to whether the compliance criteria have been met.
4. Until such a time that HUD issues updated guidance that includes the new ESG-specific criteria, DCED should ensure the monitoring of all the ESG-specific criteria is performed and documented.
 5. Ascertain the best approach for efficiently completing on-site fiscal monitoring and ensure that on-site fiscal monitoring is completed as required.
 6. Ensure the monitoring documentation is properly filed and maintained.
 7. Issue the report letters in a timely manner to allow the grantees to correct any deficiencies and timely develop corrective action plans.
 8. Timely follow up with grantees that have been issued report letters but have not responded within the 30 day time frame requested by DCED.
 9. Timely respond to grantees that have responded to the monitoring report letters issued. DCED should indicate its acceptance with the corrective action plans or, if necessary, what changes need to be made to make the plan acceptable.
 10. Ensure a supervisor has reviewed and documented his/her approval of the on-site monitoring documentation,

**Department of Community and
Economic Development**

including conclusions reached, prior to issuing report letters to the grantees.

Agency's Response and Auditors' Conclusion

DCED's response to this finding and its recommendations are located in the *Agency's Response and Auditors' Conclusion* section of the audit report.

**Department of Community and
Economic Development**

Finding 4

DCED failed to timely review and recapture unspent HOME program funds and deficiencies identified in its application review and award process.

The HUD awards HOME Investment Partnerships (HOME) Program funds each year to the Pennsylvania DCED. DCED earmarks a small percent of the total funds awarded for its administrative costs and allocates at least 35 percent of the available funds to the Pennsylvania Housing Finance Agency (PHFA)²⁹ for rental projects and homebuyer projects.³⁰ DCED subgrants the remainder to local governments (grantees), including cities, counties, boroughs, and townships. These grant funds commonly are used for home owner rehab projects for low-income individuals and families. DCED's contracts with grantees generally span approximately four or five years.

As part of our audit objective to determine if reallocated HOME program funds complied with program requirements, we noted that DCED disencumbered and recaptured a total of \$1,668,376 from July 1, 2011 through June 30, 2015, as shown in the table below.

State Fiscal Year	2011/2012	2012/2013	2013/2014	2014/2015
Recaptured/Disencumbered HOME Funds	\$568,429	\$672,037	\$284,079	\$143,831

DCED disencumbers unspent funds that remain after the end of a grantee contract. DCED may also recapture funds if noncompliance is identified with a grantee's use of HOME funds. DCED does not reallocate disencumbered or recaptured funds directly to another grantee, but instead the funds increase the total amount available to be awarded to other grantees in the next normal application review and award process.

²⁹ The scope of our audit did not include examining awards made by the Pennsylvania Housing Finance Agency. Our audit focused on the awards DCED made to local government grantees.

³⁰ Pennsylvania Department of Community and Economic Development, HOME Program, Program Guidelines dated August 2014. See http://community.newpa.com/download/programs_and_funding/program_guidelines/HOME-Guidelines_2014F.pdf Accessed: September 22, 2015.

**Department of Community and
Economic Development**

In order to achieve our audit objective, we evaluated DCED's review and recapture of unspent funds after the end of grantees' contracts, and we evaluated DCED's 2014 HOME program application review and awarding process. Based on the results of our test work, we found untimely DCED review and recapture of unspent funds and various deficiencies with DCED's HOME program application review and award process as noted in the following sections.

Untimely review and recapture of unspent funds.

Based on the information in the prior table, we inquired of DCED management as to why there was a significant decrease in the total amount of disencumbered and recaptured funds from the 2011-2012 and 2012-2013 state fiscal years to the 2013-2014 and 2014-2015 state fiscal years. Management responded the disencumbering of funds had slowed due to staffing limitations and workloads during the 2013 and 2014 calendar years.

According to DCED management, its Compliance Division generates monthly "PR02" reports from HUD's Integrated Disbursement and Information System (IDIS) which display the activity status, such as completed, closed, or cancelled; amount funded; and amount disbursed for each HOME grant. Grant managers receive email notification that the report was posted to the department's network and should utilize the reports to identify any unspent funds from projects in which the contract term has ended which should be disencumbered or recaptured from the grantee. These unspent funds can then become available to award to other grantees that could use the funds for eligible HOME projects.

We reviewed the PR02 reports for the months of June 2014 and July 2015 to identify any unspent funds for contract terms that have expired and determine if DCED had disencumbered the funds. Our review disclosed the following issues:

- Three grantees had unspent funds from the HOME program year 2008, totaling \$85,114, that were not

**Department of Community and
Economic Development**

disencumbered by DCED until approximately a year after the contract terms ended.

- Four grantees had unspent funds from the HOME program year 2009, totaling \$78,227. Of the 4 contracts, 2 ended in January 2015, 1 ended in May 2015, and 1 ended in June 2015. DCED did not recapture these funds until after we inquired about the unspent funds in September 2015, which was three to eight months after the contracts ended.
- Four grantees whose contracts ended in January 2015 appeared to have unspent program year 2009 funds totaling approximately \$60,000. As of our inquiry in September 2015, or 8 months after the contracts ended, DCED indicated that it was in the process of obtaining close-out information from the grantees to determine if funds are unspent and should be disencumbered. DCED stated that its preferred method for disencumbering funds is to obtain the grantees close-out paperwork, which includes a Fiscal Status Report, to determine the amount of unspent funds. However, the timeliness of obtaining this close-out paperwork should be improved.

Timely recapture and disencumbering of unspent funds would allow DCED to distribute the funds to other eligible grantees who could use the funds to provide quality and affordable housing to low-income Pennsylvanians in need.

**Deficiencies identified with DCED's HOME
program application review and award process.**

The application review and selection process begins with the applications submitted by local governments being assigned by geographic regions to DCED grant managers (grant managers) for review. The grant managers review each application and accompanying documents, such as statements of assurances, budget narratives, and program descriptions; and document their review notes on a "HOME App Review Form" (review sheet). The review sheet currently used was developed in

**Department of Community and
Economic Development**

2009. The review sheet contains identifying factors such as the name of the applicant, amount of funding requested, and type of activity and also documents whether the applicant meets the criteria of targeting, leverage, impact, and capacity.

The applicant receives a more favorable review by demonstrating the following: an established target for who will receive help and how funds will be spent; leverage of other resources that will contribute to the project; broader impact the project will have on the community; and its organizational capacity to administer the project. Based upon all of the application documentation submitted, the grant manager then determines whether the applicant is eligible or not, and whether to recommend the applicant for funding.

Next, the DCED program manager (program manager) moderates a joint review, which is a meeting of the grant managers to discuss the applications under review and come to an agreement as to which applications will be recommended for funding. DCED accepts applications at any time and according to the program manager, DCED will generally conduct a joint review twice per year. However, the time when DCED conducts the joint reviews depends on certain factors. Specifically, DCED waits to conduct a joint review until at least 10 applications have been received, but will conduct at least one joint review per year.

To evaluate DCED's application review and award process, we selected the most recent review completed during our audit period which occurred in 2014. DCED made awards for HOME program funding totaling \$10,395,000 to 25 grantees, with an additional \$9,272,626, or 47 percent, of the total funds awarded being allocated to PHFA. The joint review for this selection process was conducted in January 2014.

With regard to this process, we noted the following deficiencies:

No formal written procedures

DCED did not document its procedures for the award selection process in writing. Although DCED is in the process of formally documenting procedures for its selection process in

**Department of Community and
Economic Development**

writing, without written procedures in place, the possibility exists that DCED staff will not consistently follow the selection process or new staff will not have guidelines to follow.

Delay in recommending applications for funding

According to management, DCED generally will conduct a joint review twice a year unless there are less than 10 applications available to review. However, based on our audit which began in spring of 2015, we found that the last joint review occurred in January 2014 or more than 15 months prior. Therefore, DCED did not follow the timeframe that management had indicated. As a result, DCED potentially delayed awarding vital funding to some applicants for several months.

DCED indicated that it waits to conduct the joint review because it is a competitive grant and because it is more efficient. However, with regard to this being a competitive grant, DCED management has acknowledged that since, for the past several years, there has been more funding available than eligible applications requesting funding, the purpose of the joint review process has been limited to ensuring that the applicants and the associated projects are eligible. Therefore, applications are not being recommended for funding on a competitive basis, and DCED would not have to wait up to several months to make this determination.

Further, although we agree the recommendation process should be efficient, performing the joint review on a more frequent basis, such as semi-annually, would allow vital funding to be awarded several months earlier.

Lack of an objective scoring system

DCED acknowledged that it does not have an objective scoring system for ranking applications to award HOME funding, although it has considered developing one. DCED indicated that since there are plenty of funds available, there is no reason to rank applications at this time. DCED's recommendations for funding are based on whether the applicant and the

**Department of Community and
Economic Development**

associated projects are eligible and are documented on a narrative-based review sheet.

We agree that a scoring system would become necessary to the selection process if DCED were to get more applications than available funding in the future. However, in addition to using a documented written scoring sheet for the benefit of ranking applications, the scoring sheet could also be used to assess the eligibility of the applicant and the associated projects. It could contain all the criteria and a point structure could be established to assess how well the criteria has been met. This would be a consistent objective method for documenting eligibility as opposed to the narrative-based review form, which provides a section to summarize the grant managers' notes on their application reviews, which is more subjective. Without utilizing an objective method for review, such as a scoring system, the determination whether to recommend, deny, or carry-over an application risks being subjective and biased.

**Weakness with segregation of duties over the application
review and approval process**

Our evaluation of the January 2014 joint review process disclosed that, due to staffing limitations, the program manager who supervises the grant managers also acts in the capacity of a grant manager by reviewing applications from one of the regions of the state, thereby creating an inadequate segregation of duties over the selection process. Since the program manager oversees the grant managers during the joint review process, the grant managers may not want to question the application review work performed by the program manager who is their supervisor. Additionally, the program manager prepares final recommendations based on his assessment of the review sheets prepared by the grant managers as well as the discussions held during the joint review, and submits the recommendations to the director for approval. As a result, applications that were reviewed by the program manager that potentially do not adequately meet the criteria for eligibility may be recommended for funding.

**Department of Community and
Economic Development**

DCED has waited years to inform applicants that their applications have been denied.

After the joint review, the program manager provides a listing that includes only the applicants recommended for funding to the Director of DCED's Center for Community Financing (director) for review and approval. However, the program manager does not formally notify the director of any applications that were denied or carried over for future consideration. Providing this information to the director would give him the opportunity to review and question decisions made regarding applications not being approved. Applications could be carried over to a future review if additional information is required from the applicant or the applicant did not meet certain criteria at the time. Eventually, if an applicant continues to not meet certain criteria, it could be denied.

According to the program manager, the director is not officially notified of any denials until the denial letters are provided to the director for signature just prior to issuing the letters to unsuccessful applicants. While the program manager estimates that there are 12 to 14 applications which have been denied over the three year period from July 2011 to June 30, 2014, no denial letters have been prepared or provided to the director. The program manager anticipates that the denial letters will be sent out by the end of December 2015 and explained that preparing and sending the denial letters has not been a top priority. These applications could have been under review for a number of years.

For one applicant, DCED could not locate documentation to support the recommendation by the program manager from the joint review process

There were a total of 27 applications considered by DCED in 2014. We reviewed eight of these application files and found that for one file, the program manager did not list this applicant on the recommendation summary sent to the director for approval. Nonetheless, this applicant was awarded a HOME contract. DCED responded that the recommendation from the program manager to the director cannot be located, however, the deputy secretary did approve the contract.

**Department of Community and
Economic Development**

It is imperative that DCED management implement an effective internal control system established to manage risk and promote accountability to ensure that awards made to grantees for HOME funding are done in a fair, consistent, and unbiased manner. An effective internal control system includes documented policies and procedures, proper segregation of duties, documented review and approval of award recommendations, and timely review of the fund activity after the end of the contract terms.

Recommendations**We recommend that DCED:**

1. Ensure any unspent funds are recaptured timely from the grantees by requiring the grantees to submit a final fiscal status report within 30 days after the close of their contract and DCED recapture any unspent funds within 60 days after the close of their contract.
2. Develop written procedures and guidelines for its application review and selection process and ensure that these procedures are implemented properly during the review and selection process.
3. Perform application joint reviews at least semi-annually to award HOME grants more timely.
4. Develop and utilize an objective scoring system for awarding HOME grants.
5. Ensure adequate segregation of duties exist over the application review, selection, and approval process.
6. Provide a summary of all applicants to the director for review and approval, including applicants that have been recommended, denied, and carried over for future consideration, and the justification for each.
7. Promptly notify all applicants when they have been denied funding.

**Department of Community and
Economic Development**

Agency's Response and Auditors' Conclusion

DCED's response to this finding and its recommendations are located in the *Agency's Response and Auditors' Conclusion* section of the audit report.

**Department of Community and
Economic Development****Finding 5****Inadequate oversight of HOME grantees increases the risk that HOME funds will not be used for providing quality affordable housing to low-income Pennsylvanians.**

The HUD awards HOME Investment Partnerships (HOME) Program funds to the Pennsylvania DCED each year.³¹ DCED, in turn, subgrants funds to local governments for the purpose of providing quality and affordable housing to low-income Pennsylvanians. DCED's contracts with local governments (grantees) spanned four or five year terms.

HUD reviewed DCED's oversight of the HOME Program in 2012 and then again in 2014. In 2012, HUD found DCED's "level of monitoring completely inadequate for maintaining oversight of [its] local [government] grantees" with only 13 percent of its HOME grantees monitored during the period January 2009 through June 2012. HUD noted some improvement in its 2014 review; however, HUD stated that DCED still did not maintain an adequate level of monitoring grantees.

To address HUD's findings, DCED has implemented new fiscal monitoring procedures effective June 2014. Also, in June 2015, DCED contracted with a third party vendor to clear a backlog of 175 HOME program monitoring visits by May 31, 2016, at a cost of \$715,629.³²

At the time of our test work, DCED acknowledged a lack of formal written monitoring procedures. DCED has been using draft procedures from 2008 through 2014 that were never finalized. The draft manual has been revised and as of April 2015 is under review by HUD.

We reviewed DCED's monitoring of grantees with a focus on monitoring that has been performed since HUD's last review in 2014, which covered HOME grantees monitored through 2013.

³¹ 42 U.S.C. § 12741 *et seq.*; under state law, please see Section 6 (relating to National Affordable Housing Act's HOME program), 35 P.S. § 1691.6, which is in the Pennsylvania Affordable Housing Act, 35 P.S. § 1691.1 *et seq.*

³² This amount only includes the portion of the costs of DCED's contract with a third party vendor to conduct monitoring reviews directly related to HOME.

Department of Community and Economic Development

We continued to find deficiencies in DCED's program and fiscal monitoring through June 30, 2015.

HUD regulation 24 C.F.R. 85.40(a) states the following:

Grantees³³ are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.³⁴

Additionally, DCED management must maintain an effective internal control system to provide adequate oversight to ensure compliance with HOME program regulations and prevent and detect instances of error, fraud, or abuse. An internal control system includes the policies, procedures, and activities, such as monitoring, used to ensure grantees comply with laws and regulations and conduct efficient and effective operations. DCED management is responsible for maintaining an adequate system of internal controls and communicating expectations and duties to staff.

Status of program monitoring subsequent to HUD's review.

Our review of DCED's on-site program monitoring report through June 30, 2015, found that although DCED scheduled

³³ In this context, DCED is the grantee of HUD HOME Program funds. DCED then subgrants a portion of the funds to local government units.

³⁴ Please note that this regulation was deleted (i.e., reserved) in the Federal Register as of December 19, 2014. However, 24 C.F.R. § 85.1 (relating to Applicability of and cross reference to 2 CFR part 200) states as follows: "(b) **Federal awards made prior to December 26, 2014 will continue to be governed by the regulations in effect and codified in 24 CFR part 85 (2013 edition) or as provided by the terms of the Federal award.** Where the terms of a Federal award made prior to December 26, 2014, state that the award will be subject to regulations as may be amended, the Federal award shall be subject to 2 CFR part 200 [Office of Management and Budget Guidance, Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards]." [Emphasis added.] Therefore, it remains in effect for grantees awarded grants prior to December 26, 2014.

**Department of Community and
Economic Development**

39 monitoring visits during the 2013-2014 monitoring year, the department only completed 11 visits, or 28 percent. There was no on-site monitoring performed between January 23, 2014 and June 30, 2015. DCED management attributed this backlog of monitoring to be due to a lack of resources and staff.

We tested 2 of the 11 program monitoring visits completed to determine if DCED properly monitored the grantees for compliance with HOME requirements, identified any noncompliance, and followed up with the grantee in a timely manner for any issues identified. We found that the monitoring was conducted properly, finding follow-up was timely, and adequate supervisory review was documented.

**Status of financial monitoring subsequent
to HUD's review.**

Fiscal Operations Reviews

To address findings from HUD's 2012 and 2014 reviews, DCED is in the process of implementing fiscal monitoring of the HOME grantees' operations. DCED's on-site program monitoring focused on compliance with HOME regulations and did not evaluate the grantees' fiscal operations. As of June 30, 2015, DCED only conducted monitoring of fiscal operations for 6 grantees, or approximately 5 percent, of the 111 grantees which received awards from HUD program fund years 2007 to 2012.

We reviewed two of the six fiscal reviews completed to determine whether DCED adequately reviewed the grantees' fiscal operations and internal controls, identified any weaknesses, and followed up with the grantee for any issues identified. We also evaluated the timeliness of DCED's review, including any necessary follow-up. Our testing found DCED's monitoring and follow-up to be performed properly with adequate supervisory review, with the exception that for one fiscal review, it did not occur until approximately six months after the contract term ended.

Department of Community and Economic Development

DCED management stated that, due to limited resources, it is focusing on first clearing the backlog of monitoring for the Community Development Block Grant (CDBG) Program. CDBG is a larger federally-funded program that has been the subject of Single Audit³⁵ findings over many previous years. As of June 30, 2015, DCED only performed fiscal monitoring of a HOME grantee if the same grantee received CDBG funds and was subject to monitoring for the CDBG program. DCED stated that its goal, once it clears the backlog of CDBG monitoring, is to complete fiscal monitoring for the remaining HOME grantees by June 30, 2016.

Invoice Reviews

To address HUD's findings, DCED has also implemented grantee invoice reviews beginning in June 2014. Grantees submit a summary level invoice to DCED to request reimbursement of costs. Based on a cursory level review, DCED will approve grantees' invoices for payment. DCED implemented quarterly post-payment review procedures which include randomly selecting one paid invoice from each grantee, requesting the supporting documentation for that invoice, and reviewing the supporting documentation to verify costs are allowable.

As of June 30, 2015, DCED had only completed partial HOME program invoice reviews for the month of June 2014 and the quarter ended September 30, 2014, and had not completed any other subsequent quarterly reviews. We found that for the month of June 2014, DCED only reviewed invoices for 16 of 37 HOME grantees with invoices, or 43 percent, and for the quarter ended September 30, 2014, DCED reviewed invoices for 46 of 55 grantees with invoices, or 84 percent.

According to DCED, delays in completing the HOME program invoice reviews include DCED's priority to ensure all CDBG program invoices are being reviewed first and that the invoice

³⁵ Entities that receive federal funds including states, local governments, and not-for-profit organizations, are subject to audit requirements commonly referred to as "single audits" under the Single Audit Act of 1984, as amended in 1996. The Act provides that grantees are subject to one audit of all of their federal programs versus separate audits of each federal program, hence the term "single audit." See: http://www.aicpa.org/Advocacy/Issues/Pages/AuditsofFederalFunds_SingleAudits.aspx Accessed: September 30, 2015.

**Department of Community and
Economic Development**

review process was new and evolving since inception. Management also indicated there is no established timeframe to complete the reviews and HUD also has not set a timeframe. However, for a review which is to be done quarterly, it would be reasonable to expect the review to be complete before the end of the subsequent quarter to help ensure all deficiencies are corrected in a timely manner. It would also ensure the invoice reviews do not fall behind.

Of the 62 grantees with invoices reviewed for the month of June 2014 and quarter ended September 30, 2014, we selected 10 in order to evaluate DCED's process of determining whether payments were for allowable costs in compliance with program requirements, whether DCED identified noncompliance, and whether DCED properly followed up with the grantee for any issues identified. Our testing found that DCED properly performed the reviews and any related follow-up, and that adequate supervisory review was documented.

In conclusion, DCED's failure to provide adequate oversight of the HOME program increases the risk that grantees are not adhering to laws, regulations, and grant award requirements and are not meeting the objectives of the HOME program to expand the supply of decent and affordable housing to low-income individuals and families. Conducting timely program and financial monitoring of HOME grants is also necessary to help ensure that grantees are operating programs and expending funds appropriately.

Recommendations**We recommend that DCED:**

1. Finalize formal written program monitoring procedures by obtaining HUD approval and ensuring proper training of appropriate staff.
2. Eliminate the program monitoring backlog by May 31, 2016, by monitoring the third party vendor to ensure it properly and timely conducts and completes these program reviews.

**Department of Community and
Economic Development**

3. Once backlog is eliminated, ensure adequate resources are available to properly and timely complete program monitoring, including timely follow-up of any noncompliance or other issues identified.
4. Eliminate the fiscal operations review backlog by June 30, 2016, by dedicating sufficient resources to conduct and complete them, including timely follow-up with the grantees to correct any weaknesses identified.
5. Establish timeframes for completing the grantee invoice reviews, including eliminating the quarterly review backlog.
6. Dedicate sufficient resources to ensure that invoice reviews are completed in accordance with established timeframes.

Agency's Response and Auditors' Conclusion

DCED's response to this finding and its recommendations are located in the *Agency's Response and Auditors' Conclusion* section of the audit report.

**Department of Community and
Economic Development**

Agency's Response and Auditors' Conclusion



We provided draft copies of our audit findings to DCED management for their review. On the pages that follow, we have attached DCED's response to the draft findings in its entirety. Our evaluation of DCED's response, which serves as our auditor conclusion, follows DCED's response.

**Department of Community and
Economic Development**

**Audit Response from the Department of Community
and Economic Development**



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

November 3, 2015

Ms. Janet B. Ciccocioppo, CPA
Director, Bureau of Performance Audits
Department of the Auditor General
302 Finance Building
Harrisburg, PA 17120-0018

Dear Ms. Ciccocioppo:

Thank you for the opportunity to provide a written response to the draft findings and recommendations regarding the Pennsylvania Department of Community and Economic Development (DCED)'s oversight of the federally funded HOME Investment Partnership Program (HOME) and Emergency Shelter and Solutions Grant (ESG) Programs during the period of July 1, 2011, through June 30, 2014.

DCED acknowledges several ways we can improve the administration of these programs to ensure that grantees are using funds appropriately, that funds are expended in a timely manner, and that program policy and guidelines are clear for grantees and program staff.

Through the last several months, DCED has been working actively with the U.S. Department of Housing and Urban Development (HUD) to address previously identified program deficiencies in monitoring and oversight. Through a multi-tiered and comprehensive effort, DED has initiated the following:

- A) DCED is working with a consultant, KPMG, to address a backlog of monitoring in the HOME and Community Development Block Grant (CDBG) programs.
- B) ESG staff members are actively monitoring dated contracts in that program and are providing regular guidance in program administration.
- C) A new Center for Compliance, Monitoring, and Training, with a specialized Monitoring Unit was instituted as part of DCED's recent reorganization of the Center for Community Financing to place a sharp focus on review of ongoing activities and on-site monitoring of grantees engaged in current activities.
- D) With the 2014 instituted fiscal review of all invoices submitted under CDBG, HOME and ESG programs, we are now able to identify issues quickly and act expediently to ensure that our grantees maintain access to much needed program funds.

**Department of Community and
Economic Development**

Ms. Janet B. Ciccocioppo, CPA
Page Two
November 3, 2015

HUD has looked favorably on the changes made in DCED programming. Regarding expenditure of ESG funding and timeliness, HUD stated: "The Department (HUD) recognizes that the Department of Community and Economic Development has undergone a major reorganization and is implementing systemic changes in contracting, staffing, and monitoring to insure compliance with future ESG deadlines."

While DCED concurs with many of the Auditor General's findings, we are pleased to report that we have already begun to make structural and systematic changes to the programs to address the deficiencies you have identified. We believe we are aggressively moving in the right direction and your recommendations will help strengthen and fine tune the program administration to provide affordable housing opportunities and assist homeless families and individuals through services and direct assistance.

Sincerely,



Dennis M. Davin
Secretary

cc: Neil Weaver, Executive Deputy Secretary, DCED
Joseph Meade, Deputy Secretary for Community Affairs and Development, DCED
Harry Krot, Director, Center for Community Development Operations, DCED
Kathy Possinger, Director, Center for Compliance, Monitoring & Training, DCED

Attachments (2)

Department of Community and Economic Development

DCED Response to Auditor General

Finding 1 - DCED's failure to reallocate vital unspent funds of the Emergency Solutions Grants in a timely manner jeopardizes funds for counties' Homelessness Prevention and Rehousing programs.

Recommendations

We recommend that DCED:

1. Perform the midway spending requirement analysis at the 50% 12-month spending deadline and timely correspond with appropriate grantees who failed to meet this requirement.

DCED Response: DCED's recent restructure of the Center for Community Financing delineated responsibilities for operation of federal programs and monitoring and contract compliance within two separate Centers. With a focus on addressing contract compliance and oversight, in addition to monitoring the expenditure rates of grantees on a regular basis, DCED will also develop written procedures and expectations for timely correspondence with grantees to reinforce this new contract requirement.

2. Maintain the midway spending requirement analysis and related decision-making documentation.

DCED Response: DCED concurs with this recommendation and will utilize the Federal Tracking System and other tools to track correspondence with grantees regarding their status of spending requirements and communication with the grantees regarding their status toward meeting the expenditure goals. In all instances, DCED Grant Managers will communicate both verbally and with written follow up, maintaining that communication record within the grantee file. Procedures to this effect will be developed and communicated with Grant Managers.

3. Be proactive in developing a plan to reallocate the funds recaptured, as a result of the midway spending requirement analysis, during the contract period. Consider the procedures suggested in the finding.

DCED Response: DCED will maintain constant oversight of the spending timeline of each grantee awarded funds under the ESG program. Specific written procedures with benchmarks and deadlines will be put into place for Managers overseeing expenditure activity under the program. Written procedures will be put into place identifying action at key intervals where grantees are failing to meet their expenditure requirements.

4. Develop written procedures for performing the midway spending requirement analysis and the resulting recapture of funds process. These procedures should include, but not be limited to, the following:
 - a. Performing the analysis, including when the analysis should be performed.
 - b. Ensuring documented supervisory review of the analysis and conclusions reached.
 - c. Developing a plan to reallocate the recaptured funds, ensuring that the process is

**Department of Community and
Economic Development**

objective and unbiased.

- d. Timely contacting grantees that failed to meet the 50% 12- month spending requirement.
- e. Timely amending the contracts for any funds recaptured.

DCED Response: DCED concurs with this recommendation and, as noted above, will establish written procedures detailing the timelines, process and methodology for analysis of midway spending requirements for grantees. The procedures will include a process for supervisory review of the analysis and concurrence and a process by which returned or recaptured funds may be allocated to grantees in an objective manner.

Finding 2- DCED's contract delays result in unmet spending deadlines, jeopardizing available funding vital for homelessness prevention and rehousing programs.

Recommendations

We recommend that DCED:

1. Expedite the contract execution process to allow grantees the maximum time possible to expend program funds within the allowable contract period.

DCED Response: DCED actively monitors the status of approval of grantee contracts through the Electronic Single Application process. DCED Grant Managers will actively follow the process through contracting and communicate with grantees throughout the process when slow-downs are identified as a result of grantee's timeliness with return of budget amendments or executed contracts. Working with the Fiscal Management Center, the Center for Community Development Operations will track internal slow-downs in the review process and work to expedite the contract execution process.

2. Develop an effective tracking system to monitor the various phases of the contracting process to ensure that all contracts are fully executed in the most expeditious time possible.

DCED Response: DCED concurs with the recommendation and notes that the Electronic Single Application system currently documents action steps taken by each approving person or agency during the review and approval process. As noted above, staff will continue to monitor the tracking system.

3. Follow-up with grantees when signed contracts are not returned timely.

DCED Response: As noted above, DCED Grant managers will work actively with grantees to ensure contract documents, included the executed agreement are returned in a timely manner. DCED concurs with this recommendation and will monitor and document outreach to grantees.

4. Communicate all expenditure deadlines to grantees in both the award letter and the contract to afford grantees adequate time to expend funds and submit invoices to DCED requesting reimbursement within the required deadlines.

DCED Response: DCED Community Development Operations staff will work with Legal to ensure that appropriate language in grantee contracts and award letters call specific attention to the

**Department of Community and
Economic Development**

requirements for timely expenditure of funds and specific requirements for invoicing within those contracts.

5. Develop written policies and procedures for ESG application review process. These procedures should include, but not be limited to:
 - a. Completion of established DCED checklists to document the completeness of the application submitted by each applicant.
 - b. Completion of established DCED forms to summarize the applicant's prior performance for any previous ESG contracts which is used when considering awarding future ESG funds.
 - c. Process for scoring points and ranking each application during the review process.
 - d. Process for determining which applicants to recommend for funding based upon the checklists, forms, and scoring.
 - e. Criteria and guidelines for determining amount of funds to be awarded to recommended applicants.

DCED Response: DCED has checklists detailing the process for review; Grant Managers use checklists to review the content and eligibility of grant proposals to assist in making recommendations to the Program Manager. Past performance of a grantee and capacity to execute the contract is addressed in "Application Evaluation Criteria" Form and weighted in the scoring review process. DCED will incorporate these recommendations into formal written procedures for evaluation of grant proposals.

6. Consider incorporating the evaluation of applicants' past contract performance into the objective scoring system.

DCED Response: As noted above, DCED Grant Managers evaluate previous capacity and experience of the grantee in its scoring criteria. DCED will incorporate this "Application Evaluation Criteria" Form as an exhibit to its written guidelines to be developed.

7. Provide the director approving awards with all relevant information including the scores for each applicant in order to allow for a more informed decision about the recommendations for awarding ESG funds.

DCED Response: DCED Program Manager will add scoring detail and other relevant information regarding past performance to the recommendations for funding provided to the Director of the Center for Community Development Operations. Current templates will be amended and provided to Grant Managers for use in this process.

Finding 3 - Deficiencies found in DCED's on-site monitoring of Emergency Solutions grantees increases the risk that ESG funds will not be used for their intended purpose of alleviating homelessness in Pennsylvania.

Recommendations

We recommend that DCED:

**Department of Community and
Economic Development**

1. Conduct on-site monitoring of ESG grantees to eliminate the 2011, 2012, and 2013 ESG program years' backlog by December 31, 2015.

DCED Response: DCED has been working actively to address the backlog of monitoring of Emergency Shelter and Emergency Solutions Grantees. Based on the schedule currently in place, DCED anticipates having backlog of monitoring complete by December 31, 2015.

2. Develop and execute an on-site monitoring schedule for the 2014 ESG program year and future program years that allow on-site monitoring to be completed during the contract period.

DCED Response: DCED Center for Compliance, Monitoring and Training is in the process of reviewing and editing formal processes for monitoring all of its federal entitlement grant programs. This comprehensive review will include the ESG and other special purpose grants of the Department.

3. Finalize written policies and procedures for the ESG on-site monitoring process. These procedures should include, but not be limited to, the following:
 - a. Timelines for conducting on-site monitoring, issuing report letters, and responding to grantees' corrective action plans.
 - b. Supervisory review and approval of the on-site monitoring documentation and conclusions reached prior to issuing the report letters to the grantees.
 - c. Procedures for following up with grantees that do not respond timely to report letters that contain findings, concerns and recommendations.
 - d. Criteria and guidelines for the compliance areas being monitored.
 - e. The extent of documentation needed to conclude as to whether the compliance criteria have been met.

DCED Response: DCED concurs with this recommendation and as noted above, will formalize the monitoring process as part of a comprehensive Monitoring Plan to be developed by DCED and updated annually.

4. Until such a time that HUD issues updated guidance that includes the new ESG-specific criteria, DCED should ensure the monitoring of all the ESG-specific criteria is performed and documented.

DCED Response: DCED concurs with this recommendation and, as noted above, will formalize the monitoring process as part of a comprehensive Monitoring Plan to be developed by DCED and updated annually.

5. Ascertain the best approach for efficiently completing on-site fiscal monitoring and ensure that on-site fiscal monitoring is completed as required.

DCED Response: The DCED Fiscal Compliance Monitoring Division will work with the ESG Program Unit to develop an efficient approach to ensuring that on-site fiscal monitoring is completed as required.

6. Ensure the monitoring documentation is properly filed and maintained.

**Department of Community and
Economic Development**

DCED Response: DCED concurs with this recommendation and will formalize the monitoring process as part of a comprehensive Monitoring Plan and procedures to be developed by DCED and updated annually.

7. Issue the report letters in a timely manner to allow the grantees to correct any deficiencies and timely develop corrective action plans.

DCED Response: DCED concurs with this recommendation and will formalize the monitoring process as part of a comprehensive Monitoring Plan and procedures to be developed by DCED and updated annually.

8. Timely follow up with grantees that have been issued report letters but have not responded within the 30 day time frame requested by DCED.

DCED Response: DCED concurs with this recommendation and will formalize the monitoring process, including timely response to grantees regarding concerns and findings within 45 days of the grantee review. This requirement will be added to the comprehensive Monitoring Plan and procedures to be developed by DCED and updated annually.

9. Timely respond to grantees that have responded to the monitoring report letters issued. DCED should indicate its acceptance with the corrective action plans or, if necessary, what changes need to be made to make the plan acceptable.

DCED Response: DCED reviews grantee responses to monitoring finding and corrective action identified by grantees. In order to formalize the process, sample letters and templates for communication will be included in the comprehensive Monitoring Plan to be developed by DCED and updated annually.

10. Ensure a supervisor has reviewed and documented his/her approval of the on-site monitoring documentation, including conclusions reached, prior to issuing report letters to the grantees.

DCED Response: DCED will require parameters for supervisory review of monitoring action taken by Grant Managers and monitors as part of the Monitoring Plan to be developed by DCED and updated annually.

Finding 4 - DCED failed to timely review and recapture unspent HOME program funds and deficiencies identified in its application review and award process.

Recommendations

We recommend that DCED:

1. Ensure any unspent funds are recaptured timely from the grantees by requiring the grantees to submit a final fiscal status report within 30 days after the close of their contract and DCED recapture any unspent funds within 60 days after the close of their contract.

DCED Response: DCED requires that grantees close contracts by completing a Fiscal Status Report and providing detail of expenditures under the program, including any unspent funds allocated for an

Department of Community and Economic Development

activity. DCED will establish formal written procedures for close out and return of unspent funds under the HOME program within specific time parameters.

2. Develop written procedures and guidelines for its application review and selection process and ensure that these procedures are implemented properly during the review and selection process.

DCED Response: DCED has a process in place for review of applications under the HOME program to demonstrate consistency with HOME program regulations and DCED priorities. DCED agrees that a formalized written process should accommodate the review detail and will develop step-by-step written procedures for review and selection of grantees.

3. Perform application joint reviews at least semi-annually to award HOME grants more timely.

DCED Response: DCED will establish parameters and timelines in place to ensure that grant applications are reviewed more consistently to allow for timely distribution of funds. As part of our analysis of this recommendation, DCED will investigate the possibility of moving from a rolling HOME application deadline to definitive due dates to meet the timely distribution needs. Once determined, written procedures will be developed.

4. Develop and utilize an objective scoring system for awarding HOME grants.

DCED Response: DCED concurs with this recommendation and will establish written procedures to this effect.

5. Ensure adequate segregation of duties exist over the application review, selection, and approval process.

DCED Response: DCED concurs with this recommendation, however notes that the Program Manager, with Grant Managers, make funding recommendations to the Center for Community Development Director and then the Deputy Secretary for Community Affairs and Development for HOME grantees. Final grant award approval is granted by the Deputy Secretary. This represents a segregation of duties within the Department. DCED will seek additional staffing complement to further segregate duties as part of an objective review process in the future.

6. Provide a summary of all applicants to the director for review and approval, including applicants that have been recommended, denied, and carried over for future consideration, and the justification for each.

DCED Response: DCED concurs with this recommendation and will incorporate greater detail in its recommendations and denials as outlined here.

7. Promptly notify all applicants when they have been denied funding.

DCED Response: DCED concurs with this recommendation and will establish written procedures to this effect.

Finding 5 - Inadequate oversight of HOME grantees increases the risk that HOME funds will not

**Department of Community and
Economic Development**

be used for providing quality affordable housing to low-income Pennsylvanians.

Recommendations

We recommend that DCED:

1. Finalize formal written program monitoring procedures by obtaining HUD approval and ensuring proper training of appropriate staff.

DCED Response: DCED concurs with this recommendation and will formalize the monitoring process as part of a comprehensive Monitoring Plan and procedures to be developed by DCED and updated annually.

2. Eliminate the program monitoring backlog by May 31, 2016, by monitoring the third party vendor to ensure it properly and timely conducts and completes these program reviews.

DCED Response: DCED has engaged KPMG, a contracted consultant to assist in review of a backlog of HOME grants awarded. DCED anticipates completion of the backlog review by May 31, 2016. Working with the Weatherization team, monitoring of current contract is underway currently.

3. Once backlog is eliminated, ensure adequate resources are available to properly and timely complete program monitoring, including timely follow-up of any noncompliance or other issues identified.

DCED Response: DCED concurs with this recommendation and will formalize the monitoring process as part of a comprehensive Monitoring Plan and procedures to be developed by DCED and updated annually.

4. Eliminate the fiscal operations review backlog by June 30, 2016, by dedicating sufficient resources to conduct and complete them, including timely follow-up with the grantees to correct any weaknesses identified.

DCED Response: The Fiscal Compliance Monitoring Division's goal is to eliminate the backlog by June 30, 2016 and we will continue to make every effort to follow-up with grantees to ensure that corrective action has been implemented to address any weaknesses that have been identified during the invoice review process.

5. Establish timeframes for completing the grantee invoice reviews, including eliminating the quarterly review backlog.

DCED Response: Financial Management Center Directive 2014-04 establishes policy and procedure for DCED review of Community Development Block Grant (CDBG) and HOME invoices submitted by Grantees. Invoices received will be reviewed and processed within 3 business days of receipt. The Fiscal Compliance Monitoring Division of FMC will implement timeframes for completing the subsequent quarterly invoice review process.

6. Dedicate sufficient resources to ensure that invoice reviews are completed in accordance with established timeframes.

**Department of Community and
Economic Development**

DCED Response: The Compliance Monitoring Division will review the process to find efficiencies that will speed up the process and eliminate the back log.

**Department of Community and
Economic Development**

Auditors' Conclusion to DCED's Response



DCED has reviewed the five audit findings and has concurred with most of our recommendations and states that it has begun to implement improvements to correct deficiencies noted in the findings. We are encouraged by DCED's response and believe our recommendations will improve DCED's administration and oversight of the ESG and HOME programs to help alleviate homelessness in Pennsylvania and provide quality affordable housing to low-income families and individuals.

Based on our review of DCED's response to our findings and recommendations, we have the following clarification regarding DCED's response to Finding #2, Recommendation #6. DCED states that its evaluation of an applicant's past performance is included in its scoring criteria. While this statement is true in part, we found that there were other subjective considerations made to deny the applications based on the applicants' past performance, including issues noted during DCED on-site monitoring, not spending available funds, not invoicing timely, and not being responsive to DCED requests, rather than solely relying on the objective scores to award funding. For example, we found that DCED denied funding to three applications, which received higher scores than applications that were approved, because of these other considerations. Therefore, we are recommending that DCED incorporates these other considerations into the scoring criteria to ensure objectivity of the ESG award process.

**Department of Community and
Economic Development****Appendix A****Objectives, Scope, and Methodology**

The Department of the Auditor General conducted this performance audit in order to provide an independent assessment of the Department of Community and Economic Development's (DCED) oversight of federally funded homelessness prevention and re-housing programs. Specifically, audit procedures covered DCED's administration and oversight of the Emergency Solutions Grants (ESG) and HOME Investment Partnership (HOME) programs.

We conducted this audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our audit objectives were as follows:

1. Evaluate DCED's procedures for monitoring recipient's compliance with program requirements. (See Findings #3 and #5)
2. Determine what actions DCED takes when a recipient of federal funds is noncompliant with program requirements. (See Findings #3 and #5)
3. Determine if DCED reallocated any federal funds to other recipients and if those reallocations complied with program requirements. (See Findings #1, #2, and #4)

Scope

Our audit period was July 1, 2011, through June 30, 2014, with updates through September 30, 2015, unless otherwise noted.

Department of Community and Economic Development

DCED management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that its department is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures.

In conducting our audit, we obtained an understanding of relevant internal controls, including any information system controls, if necessary, as they relate to those requirements and that we considered to be significant within the context of our audit objectives.

For those internal controls that we determined to be significant within the context of our audit objectives, we also assessed the effectiveness of the design and implementation of those controls as discussed in the *Methodology* section that follows. Any deficiencies in internal controls that were identified during the conduct of our audit – and determined to be significant within the context of our audit objectives – are included in this report.

Methodology

Overall Methodology

To address our audit objectives, we performed the following overall procedures applicable to both the ESG and HOME programs:

- Obtained and reviewed appropriate laws, regulations, program guidelines, and HUD reports.
- Obtained and reviewed DCED's draft of the Administrative and Monitoring Procedures Manual applicable to the HUD funded federal programs Community Development Block Grant (CDBG), HOME, and ESG.
- Obtained and reviewed the HUD Agreements to determine the amount of federal ESG and HOME funds awarded to DCED for federal program years 2011, 2012, 2013, and 2014.

**Department of Community and
Economic Development**

- Interviewed and corresponded with DCED's management including staff from the Center for Community Financing and the Financial Management Center Compliance Monitoring Division to assess controls and gain an understanding of policies and procedures related to DCED's administration and oversight of the ESG and HOME programs.

Methodology for the ESG Program

To address our audit objectives, we performed the following:

- Obtained listings of 2011, 2012, 2013, and 2014 ESG grantees including the total amount awarded to each grantee, and the amounts, if any, that were recaptured during their ESG contract period or at the end of their contract period.
- Obtained and reviewed correspondence between DCED and grantees regarding recaptured funds from the 2011, 2012, and 2013 ESG program years.
- Obtained and reviewed documents that DCED received from HUD: (1) regarding approval to reallocate unspent money from the 2011 and 2012 programs to grantees awarded funds in the 2014 ESG program; and (2) granting extensions to the spending deadlines for the 2011 and 2012 reallocated funds.
- Obtained and reviewed the awards letters issued by DCED to each approved 2013 and 2014 ESG applicant to determine what program information was provided by DCED.
- Obtained and reviewed the 2013 and 2014 ESG contracts for award amounts, contract period, special conditions and requirements including spending deadlines, and contract signature dates by the grantee and DCED.
- Obtained a listing of the 31 applicants that requested 2014 ESG program funds from DCED.

**Department of Community and
Economic Development**

- Obtained and reviewed documents used by DCED to support its review and subsequent scoring of applications received requesting ESG funds.
- Obtained and reviewed a summary of the recommendations made by DCED staff to either approve or deny each applicant's request for 2014 ESG funds.
- Selected 10 applicant files using auditor judgment from the listing of 31 applicants requesting 2014 ESG funds and reviewed the work performed by DCED to determine whether each applicant was eligible for funding and provided required application documents, and whether justification was on file to support the decisions made by DCED to either approve or deny funding to each applicant.
- Selected 10 of the 25 grantees awarded 2014 ESG program funds using auditor judgment and reviewed award letters, contract signature dates, and DCED event logs to determine the amount of time it took to fully execute contracts.
- Selected 9 of the 18 grantees awarded 2013 ESG program funds using auditor judgment and reviewed award letters, contract signature dates, and DCED event logs to determine the amount of time it took to fully execute contracts.
- Obtained HUD's Integrated Disbursement and Information System (IDIS) PR05 and PR91 activity reports to determine expenditures made by grantees from funds awarded to them for the 2011, 2012, 2013, and 2014 ESG program years.
- For the period July 1, 2011, to July 25, 2015, obtained and reviewed listings of the ESG grantees that DCED performed on-site monitoring.
- Selected 8 of 20 grantees monitored and issued a report letter by DCED using auditor judgment to evaluate whether properly DCED properly monitored grantees for compliance with ESG requirements and conducted follow up with the grantees for any issues identified. We also evaluated the timeliness of the monitoring and follow-up.

**Department of Community and
Economic Development**

- Selected 5 of 18 grantees receiving 2013 ESG awards using auditor judgment and reviewed all invoices submitted to DCED requesting reimbursement from the beginning of their contract period of September 26, 2013 through July 10, 2015 to evaluate DCED's procedures to review invoices for allowability of costs prior to approving reimbursement payments to the grantees.

Methodology for the HOME Program

To address our audit objectives, we performed the following:

- Obtained and reviewed HUD's 2012 and 2014 reports evaluating DCED's oversight of the HOME program, as well as DCED's response to HUD's findings, for any deficiencies identified related our audit objectives.
- Obtained listings of DCED HOME awards to grantees during the period July 1, 2011, to June 30, 2014.
- Obtained listings of disencumbered and recaptured funds from HOME grantees for the period July 1, 2011, to June 30, 2015.
- Obtained copies of HUD IDIS PR02 activity reports for the period July 2013 through June 2014, and for the month of July 2015. Performed a detailed review of the HOME Program Year 2008 PR02 report from June 2014 and Program Year 2009 PR02 report from July 2015 to identify any available unspent funds.
- Obtained the listing of applicants under review during the joint review DCED conducted in January 2014. Using auditor judgment, selected 8 of 27 applicant files and evaluated whether each applicant was a unit of local government eligible to apply for funding, reviewed application documents supporting the decisions made to either recommend, carry-over, or deny funding, and verified each applicant recommended for funding was properly approved by DCED management.

**Department of Community and
Economic Development**

- Obtained and reviewed listings of the on-site program monitoring completed by DCED during the period July 1, 2011, to June 30, 2015.
- Selected 2 of the 11 program monitoring reviews completed during the 2013-2014 monitoring year using auditor judgment and evaluated whether DCED properly monitored the grantees for compliance with HOME requirements, identified any noncompliance, and followed-up with the grantees in a timely manner for any issues identified.
- Obtained and reviewed the listing of the fiscal reviews completed by DCED as of June 30, 2015.
- Selected 2 of the 6 fiscal monitoring reviews completed as of June 30, 2015 using auditor judgment and evaluated whether DCED adequately reviewed the grantees' fiscal operations and internal controls, identified any weaknesses, and followed up with the grantees for any issues identified. We also evaluated the timeliness of DCED's review, including any necessary follow-up.
- Obtained and reviewed the listing of invoice reviews completed by DCED for the month ended June 30, 2014, and the quarter ended September 30, 2014.
- Selected 10 of the 62 invoice reviews completed for the month ended June 30, 2014, and the quarter ended September 30, 2014 using auditor judgment and evaluated DCED's process of determining whether payments were made for allowable costs in compliance with program requirements and whether DCED identified noncompliance and properly followed up with the grantee for any issues identified. We also evaluated the timeliness of DCED's review, including any necessary follow-up.

**Department of Community and
Economic Development****Appendix B****Audit Distribution List**

Upon its release, this report was distributed to the following Commonwealth officials:

The Honorable Tom Wolf
Governor**The Honorable Randy Albright**

Secretary of the Budget
Office of the Budget

The Honorable Timothy Reese

State Treasurer
Treasury Department

The Honorable Dennis M. Davin

Secretary
Department of Community and Economic
Development

The Honorable Kathleen G. Kane

Attorney General
Office of the Attorney General

The Honorable Sharon Minnich

Secretary of Administration
Office of Administration

The Honorable Kim Ward

Republican Chair
Senate Community, Economic and Recreational
Development Committee

The Honorable Lawrence Farnese

Democratic Chair
Senate Community, Economic and Recreational
Development Committee

The Honorable David Hickernell

Republican Chair
House Tourism and Recreational Development
Committee

The Honorable Thaddeus Kirkland

Democratic Chair
House Tourism and Recreational Development
Committee

The Honorable Scott Wagner

Republican Chair
Senate Urban Affairs and Housing Committee

The Honorable Wayne Fontana

Democratic Chair
Senate Urban Affairs and Housing Committee

The Honorable Scott Petri

Republican Chair
House Urban Affairs Committee

The Honorable Thomas Caltagirone

Democratic Chair
House Urban Affairs Committee

Mr. Neil Weaver

Executive Deputy Secretary
Department of Community and Economic
Development

Mr. Joseph Meade

Deputy Secretary, Community Affairs and
Development
Department of Community and Economic
Development

Mr. Brian Lyman, CPA

Director, Bureau of Audits
Office of Comptroller Operations

Ms. Mary Spila

Collections/Cataloging
State Library of Pennsylvania

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.

**Department of Community and
Economic Development**

This page left blank intentionally