COUNTY OF MILWAUKEE
Inter-Office Communication

Date: May 31, 2011

To: Lee Holloway, Chairman, Milwaukee County Board of Supervisors

From: Jerome J. Heer, Director of Audits

Subject: Review of Issues Related to Accounting for Funds Provided by the U.S. Department of Housing and Urban Development (File No. 11-286)

In a memo dated January 14, 2011 the Milwaukee County Department of Audit was directed by then County Board Chairman Michael Mayo, Sr. to review issues related to accounting for funds provided by the U.S. Department of Housing and Urban Development (HUD). The directive stemmed from issues raised by HUD in a monitoring letter dated September 10, 2009. The letter summarized nine findings from HUD's monitoring of the County-administered HOME Investment Partnership Program for 2006, 2007 and 2008, including some findings with financial implications going back as far as 2003.

Attached is a memo summarizing the results of our review, along with a response by the Department of Health and Human Services to the three audit recommendations contained in the memo. Our suggested action is for the Committee on Finance and Audit to concur with the audit recommendations contained in the memo. Please refer this item to the Committee on Finance and Audit.

Jerome J. Heer

JJH/cah

Attachment

cc: Supervisor Michael Mayo, Sr.
Chris Abele, Milwaukee County Executive
Finance & Audit Committee Members
Geri Lyday, Interim Director, Department of Health and Human Services
Leonard Jackson, Housing Division Administrator, DHHS
Terrance Cooley, Chief of Staff, County Board Staff
Stephen Cady, Fiscal & Budget Manager, County Board Staff
Carol Mueller, Chief Committee Clerk, County Board Staff

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: May 31, 2011

To: Geri Lyday, Interim Director, Department of Health and Human Services

From: Jerome J. Heer, Director of Audits

Subject: Review of Issues Related to Accounting for Funds Provided by the U.S. Department of Housing and Urban Development (File No. 11-286)

Background
In a memo dated January 14, 2011 the Milwaukee County Department of Audit was directed by the Chairman of the County Board of Supervisors to review issues related to accounting for funds provided by the U.S. Department of Housing and Urban Development (HUD). The directive stemmed from issues raised by HUD in a monitoring letter dated September 10, 2009. The letter summarized nine findings from HUD's monitoring of the County-administered HOME Investment Partnership Program for 2006, 2007 and 2008, including some findings with financial implications going back as far as 2003.

The program, currently administered by the Housing Division within the Milwaukee County Department of Health and Human Services, provides funding for the production of affordable housing and the rehabilitation of existing housing, as well as down payment and closing cash assistance for eligible first-time homebuyers. Prior to 2008, the HOME Investment Partnership Program and other home repair programs that offer low- or no-interest loans to low-income homeowners, was administered within the Economic and Community Development Division within the Department of Administrative Services.

History
There is a history of problems associated with the County's financial management of federally-funded housing programs.

- **In 2004, the Economic and Community Development Division closed the year with a deficit of $531,000.** A memo issued by the Director of Audits on May 9, 2005 regarding this deficit is attached. The foundation for this problem was a change in the funding approach used by the U.S. Department of Housing and Urban Development (HUD). However, the Division did not closely monitor the financial consequences of these changes in HUD funding methods. Two items appear to have accounted for the $531,000 deficit:

  (1) An accrual made at year-end 2003 of approximately $230,000 was not funded by HUD because it related to an 'overlease' position (on an annual basis) for which no reserve funds were available. Failure to receive this funding had to be recognized in 2004, even though the shortfall was actually related to 2003 program activity.

  (2) A 2004 HUD disallowance of approximately $300,000 because Milwaukee County exceeded its allowable Per Unit Cost rate, and there were insufficient reserve funds to cover the overrun.

The memo notes that a 2004 Adopted Budget initiative merged two separate divisions (Division of Economic Development and Division of Housing and Community Development) into one division and abolished 6.7 housing positions. Key positions lost as a result of the merger and/or retirements during the year included the Director of Housing and Community Development, the Director of Economic Development, the Housing and Development Program Coordinator and the Assistant Housing and Development Coordinator.

In light of the merger and personnel departures, the HUD changes could not have come at a worse time. Management personnel responsible for monitoring and responding to changes in regulations left and were not replaced. Absent any direction from mangers, line staff continued to operate the program as it had in 2003. The memo cautioned that the County would need to be in a better position to respond to changes in the federal regulatory environment, as such changes were likely due to increased local competition for scarce federal resources.

- **In 2006, housing programs within the Economic and Community Development Division closed the year with a deficit of $2.4 million.** A memo regarding this deficit was issued by the Director of Audits and the County Board Fiscal & Budget Administrator on May 1, 2007 (see attached)—two years after the previous memo identifying the need to improve fiscal oversight over federal housing program administration. At the time the memo was prepared, the estimated deficit in housing programs was approximately $3 million.

  Key components of the 2006 deficit included:

  (1) Administration Reimbursement Revenue – Nearly $1 million in anticipated reimbursement revenue from HUD was not realized due to administrative costs in excess of allowable limits.

  (2) Grant Revenue – Another nearly $1 million of unachieved grant revenue in five separate housing programs.

  (3) Carryovers from 2005 to 2006 – Approximately $1 million was budgeted in funding carried over from 2005 that was either not achievable as revenue or included expenditures that were to occur in 2006 that could not be incurred.

  The memo went on to detail several factors that contributed to the recurrence of deficits within the Division. These included limitations in both budgeting and fiscal monitoring procedures as well as decisions about the number and nature of fiscal staff assigned to the Division.

- **The 2009 Adopted Budget called for a review of the finances of the Community Development Block Grant program in conjunction with the program's transfer from the Department of Administrative Services to the Department of Health and Human Services.** The Department of Audit issued a memo dated March 31, 2009 summarizing its findings. The 2009 memo noted that recommendations from the 2005 and 2007 reviews of housing programs had been addressed, including the creation of a high-level accounting position, budgeting at the program level, building 'red flags' into accounting and budgeting procedures, periodic allocations of administrative charges, limiting carryover activity and creating a Deputy Controller position in DAS Central Accounting. The memo concluded that the DHHS Housing Division has unique and challenging accounting requirements that would

require ongoing diligence, and that care should be taken to ensure the continuation of appropriate accounting support.

- **In May 2010, the Department of Audit issued a report titled *Better Management Oversight Needed for County Administered Federal Rent Assistance Program.*** The audit identified errors and omissions affecting the level of assistance provided in 23% of the cases reviewed from a statistically valid random sample. Many errors similar in nature to the types identified in this audit were identified in a previous audit of the Milwaukee County Rent Assistance program conducted by HUD. That audit, issued in August 2007, contained the following comments:

> "To begin, we would like to commend your Authority in regard to the organization present, especially considering the heavy workload that your staff is dealing with. Our review determined that the errors that were encountered were more reflective of the heavy workload as opposed to egregious errors on the part of staff. It is a credit to you and your staff that you continue to operate in an effective manner given the current workload."

The County audit identified as a contributing factor to the error rate a lack of program resources, noting that the imposition of 22 furlough days *[Note: Four additional furlough days were later added]* for Rent Assistance program staff resulted in the loss of 1,232 staff hours in 2010, or the equivalent of approximately 69% of available work hours for a typical County employee. Exacerbating the problems associated with a general lack of program resources was a high level of turnover and vacancy in the position of Housing Director. The May 2010 report noted that since 2004, under various placements within the Milwaukee County organization chart, there have been six separate appointments to the top management position overseeing the Rent Assistance and other housing programs, including several lengthy periods of vacancies.

Current Issues

The nine findings contained in the monitoring letter issued to the County by HUD in September 2009 generally pertained to a breakdown in the County's timely and accurate reporting of required financial information to HUD. Of the nine findings contained in the monitoring letter, eight were resolved over the next several months after the County:

- Provided additional documentation in support of challenged costs.
- Entered a backlog of required information into HUD's Integrated Disbursement and Information System (IDIS).
- Agreed to make modifications to better document review and accounting processes.
- Remitted $88,961 to the U.S. Treasury for interest income earned from the HOME Investment Trust Fund account during the period 2003 through 2008. The County had previously sought and obtained, in a monitoring letter dated July 22, 2003, written guidance from a HUD official regarding retention of the interest. However, the current Director of the Office of Community Planning at HUD disagreed that retention of the interest by the County is allowed under HUD regulations.

One finding with significant financial implication remained unresolved until recently. HUD cited the County for charging program administrative fees in excess of allowable limits during the period 2003 through 2008. HUD initially identified $855,762 in excess administrative charges but ultimately accepted additional documentation from the County that reduced the unallowable amount to $219,997. The County argued that this remaining amount was allowable, in part because personnel costs associated with the Housing and Development Program Coordinator position qualified as project related soft costs, which are permitted as program costs and are not counted against administrative cost limits. After reviewing a significant amount of past program records, HUD did not accept the County argument, noting that program documents did not contain sufficient evidence to distinguish the Program Coordinator's work as project related as opposed to administrative. The County's financial records reflect a payment of $219,997 posted on May 3, 2011 from current HOME/Home Repair operating funds to HUD to clear the finding, thus completing corrective action for each of the nine findings contained in the September 2009 monitoring letter.

Root Causes of Current Problems

Our analysis of the root causes of these problems are based on our review of the HUD monitoring letter, subsequent correspondence between County administrators and HUD, discussions with current HOME/Home Repair staff and DHHS management, and the past history of problems in the County's administration of federal housing programs. We have concluded that the lack of timely and accurate reporting of required HUD data, the common issue underlying most of the nine findings contained in the HUD monitoring letter, stems from two root causes that appeared as concerns in our earlier memos regarding operating deficits in the County's administration of federal housing programs. These root causes are frequent turnover and extended vacancies in key management positions, and insufficient staff positions to ensure timely compliance with all program reporting requirements.

- **Frequent turnover and extended vacancies in key management positions.** As previously noted, our May 2010 audit report noted that since 2004, under various placements within the Milwaukee County organization chart, there have been six separate appointments to the top management position overseeing the Rent Assistance and other housing programs, including several lengthy periods of vacancies. Since the issuance of that report, the Housing Division Administrator position became vacant once again at the beginning of 2011. That position was only recently filled with the Director of Health and Human Services' appointment of an Economic Development Coordinator as Housing Division Administrator, creating a vacancy in the Coordinator position.

  According to the former Housing and Development Coordinator, prior to 2004, it was standard practice for HOME/Home Repair staff to report to HUD all disbursements of funds on a project, including both Program Income (e.g., repayment of construction/repair loans granted) and draws on federal funds, after close-out of a project. This meant that the County was effectively pre-paying project costs throughout the life of a project, and providing a detailed accounting of the expenditures to HUD at the project's conclusion. In so doing, the County was failing to document to HUD, on an ongoing basis, that Program Income was being fully expended before drawing down on federal grant funds. Thus, in its September 2009 monitoring letter, HUD required that the County enter project activity to fully account for approximately $826,000 in accumulated funds in its local HOME Investment Trust Fund account before drawing any additional federal funds. A further complication developed when a number of planned projects fell through due to the poor economic conditions in recent years, which meant funds committed to those projects had to be re-allocated to other projects before additional federal funding for 2011 could be obtained. As of April 28, 2011, the County had posted entries into IDIS clearing all Program Income and drawing an additional $1.5 million in new federal funding.

Turnover in key management positions appears to have contributed to the County's failure to recognize the need for, and implement, procedural changes to comply with new HUD reporting requirements.

- **Insufficient staff positions.** The former Housing and Development Coordinator indicated that prior to 2004, there were eight positions assigned to the HOME/Home Repair program. At the time of our interview in March of this year, he stated there were three positions (plus a Clerical Assistant position shared with another housing program), with two individuals planning to retire in the near future. The former Housing and Development Coordinator subsequently retired and is currently assisting the HOME/Home Repair program on a contract basis. As of the writing of this memo, the Housing Division has vacancies in eight of its 30 funded positions, or 27% of its authorized staffing level, including two vacant positions in the HOME/Home Repair program.

After months of working through the nine findings contained in the September 2009 HUD monitoring letter, the County ultimately was required to remit a total of $308,958 to HUD for disallowances stemming from program activity during the period 2003 through 2008. Of that amount, $219,997 will negatively affect the 2011 HOME/Home Repair operating budget within the Housing Division of DHHS for 2011.

To avoid similar financial consequences going forward, we recommend DHHS management:

1. *Fill and maintain at full strength budgeted positions of the Housing Administrator and HOME/Home Repair program.*

2. *Maintain at least quarterly postings of HOME project expenditures in the federal IDIS system. Currently, HUD is requiring the County to make monthly postings to ensure compliance with reporting requirements*

3. *Establish protocols for internal management review of all IDIS postings of HOME/Home Repair program expenditures to ensure timeliness and accuracy of reported information.*

Jerome J. Heer

JJH/cah

COUNTY OF MILWAUKEE
Department of Health & Human Services
INTER-OFFICE COMMUNICATION

DATE: May 31, 2011

TO: Jerome J. Heer, Director of Audits

FROM: Geri Lyday, Interim Director, Department of Health and Human Services

SUBJECT: Response to DHHS Management recommendations regarding the Review of Issues Related to Accounting for Funds provided by the U.S. Department of Housing and Urban Development

We wish to thank you for taking the time to review the Housing programs. I want to assure you that we have the fiscal tools in place to be responsive to HUD, as well as internal reports to maintain strong fiscal accountability and integrity. The historical information, as well as your insight and recommendations, will help to better manage the programs going forward.

In response to your recommendations:

1. *Fill and maintain at full strength budgeted positions of the Housing Administrator and HOME/Home Repair program.*

Response
DHHS and the Housing Division are committed to fill and maintain at full-strength budgeted positions of the Housing Administrator and HOME/Home Repair Program Coordinator. We have begun the process of filling all other Home and Economic Development positions and will work with existing staff to provide cross-training. We recognize the need to consistently maintain full staff to manage the HUD programs and we will take every step necessary to expedite and cooperatively work with HR to fill positions.

2. *Maintain at least quarterly postings of HOME project expenditures in the federal IDIS system. Currently, HUD is requiring the County to make monthly postings to ensure compliance with reporting requirements.*

Response
We have instructed staff to maintain the timely entry of HOME project expenditures in the Federal IDIS system and will develop a monthly reporting format for the program and fiscal evaluations using the IDIS information. This will facilitate the consistent and timely review of the programs by Housing Management and DHHS Fiscal Administration. The DHHS Fiscal and Budget staff are having regular meetings with the Housing Administration and

Fiscal staff to jointly work and develop fiscal monitoring tools that will be available for both DHHS and the Housing Administration to efficiently comply with program requirements.

3. *Establish protocols for internal management review of all IDIS postings of HOME/Home Repair program expenditures to ensure timeliness and accuracy of reported information.*

Response
Our Fiscal and Budget Administrator, Jeanne Dorff, will work with Housing, Accounting, Budget staff and the Audit Department to establish the protocols for internal management review of all IDIS postings of HOME/Home Repair program expenditures to ensure timeliness and accuracy of reported information. This will be in place by July 31, 2011.

Jerry, thank you and your staff again for a very informative and balanced report that will assist this department in maintaining high quality of service and appropriate fiscal checks and balances in our Housing Administration.

Geri L. Geyday

cc: Jeanne Dorff
Leonard Jackson
Doug Jenkins
Alex Koetze
Tom Lewandowski

File No. 11-286
(Journal,)

(ITEM) From the Director of Audits, Requesting County Board approval to concur with three audit recommendations related to the Department of Health and Social Services' administration of the federal Home/Home Repair program.

A RESOLUTION

WHEREAS, the Milwaukee County Department of Audit was directed by then County Board Chairman Michael Mayo, Sr. to review issues related to accounting for funds provided by the U.S. Department of Housing and Urban Development (HUD); and

WHEREAS, the directive stemmed from issues raised by HUD in a monitoring letter dated September 10, 2009; and

WHEREAS, the letter summarized nine findings from HUD's monitoring of the County-administered HOME Investment Partnership Program for 2006, 2007 and 2008, including some findings with financial implications going back as far as 2003; and

WHEREAS, the Department of Audit issued a memo dated May 31, 2011, summarizing the results of its review, along with a response by the Department of Health and Human Services to the three audit recommendations contained in the memo; now, therefore, ,

BE IT RESOLVED, that the Milwaukee County Board of Supervisors concurs with the audit recommendations contained in the Department of Audit memo dated May 31, 2011, relating to the Department of Health and Human Services' administration of the federal HOME/Home Repair program.

MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: 5/31/2011

Original Fiscal Note ☒

Substitute Fiscal Note ☐

SUBJECT: Resolution (File No. 11-286) to concur with three audit recommendations contained in a May 31, 2011 memo related to the Department of Health and Social Services' administration of the federal HOME/Home Repair program.

FISCAL EFFECT:

☒ No Direct County Fiscal Impact

☒ Existing Staff Time Required

☐ Increase Operating Expenditures
(If checked, check one of two boxes below)

☒ Absorbed Within Agency's Budget

☐ Not Absorbed Within Agency's Budget

☐ Decrease Operating Expenditures

☐ Increase Operating Revenues

☐ Decrease Operating Revenues

☐ Increase Capital Expenditures

☐ Decrease Capital Expenditures

☐ Increase Capital Revenues

☐ Decrease Capital Revenues

☐ Use of contingent funds

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	0	0
	Revenue	0	0
	Net Cost	0	0
Capital Improvement Budget	Expenditure	0	0
	Revenue	0	0
	Net Cost	0	0

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. [1] If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

The resolution will require no additional expenditure of funds. Audit recommendations include filling authorized and funded positions that are currently vacant in the Housing Division of the Department of Health and Social Services, as well as implentation of procedures and management controls to ensure compliance with federal reporting requirements in the HOME/Home Repair program.

Department/Prepared By Department of Audit

[1] If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

Authorized Signature _____

Did DAS-Fiscal Staff Review? ☐ Yes ☑ No