

**Performance Audit:
Grants Management**

April 2023

**City Auditor's Office
City of Atlanta**

File #23.01



CITY OF ATLANTA
City Auditor's Office
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April 2023

Performance Audit:

Grants Management

What We Found

The Department of Grants and Community Development implemented new standard operating procedures in 2022 that addressed issues identified in previous audits, mitigating the risk of noncompliance with grant requirements and HUD recapturing funds.

The new procedures have helped clear the backlog of subrecipients' invoices and reduce the turnaround time to reimburse subrecipients, while increasing the number of active projects that are spending funds at the recommended burn rate. Enforcing monthly reimbursement requests from subrecipients could reduce the time lapse between invoice date and reimbursement submission, which averaged over eight months in 2021 and 2022, and help to ensure that subrecipients are spending at the recommended burn rate. During our audit, 70% of active projects were spending at the recommended burn rate.

The department could improve the accuracy of its tracking to ensure that drawdowns from HUD's system, IDIS, match what is recorded in Oracle. During our audit scope, Grants drew down \$122,000 more from IDIS than it recorded in Oracle for three projects. Because Oracle and IDIS are not integrated, the department is working with a third-party vendor to improve its tracking and data accuracy.

Grants could also improve the documentation of its monitoring processes and its oversight of the Section 8 program. We found that Grants documented 67% of its desk monitoring procedures, and 85% of its full monitoring procedures, and we were unable to determine the eligibility of 2 of 46 sampled client files that the department reviewed during its desk monitoring. Additionally, we could not determine the eligibility of 2 of 15 Section 8 clients based on the documents provided, and Section 8 files were missing 44% of required documentation. The department did not have procedures in place for the Section 8 program when we began the audit but has since drafted them to address these issues.

Why We Did This Audit

We undertook this audit of grants management because previous performance and financial audits identified heightened risk of noncompliance with grant requirements. This audit assesses controls to ensure timely and compliant administration of grant agreements.

What We Recommended

To improve project management and mitigate the risk of incurring unallowable expenses and HUD recapturing funds, the commissioner of the Department of Grants and Community Development should:

- enforce monthly reimbursement requests from subrecipients
- reconcile expenditures from Oracle with funds drawn down from HUD in IDIS before its next drawdown
- streamline Grants' internal trackers and link them to Oracle and HUD's reporting system if possible
- continue to develop and enforce procedures for Section 8
- implement a tracking system for Section 8 compliance
- establish a mechanism for documenting all steps of the monitoring process to ensure staff compliance and transparency
- update monitoring process and ensure the practices are consistent with procedures

For more information regarding this report, please use the "contact" link on our website at www.atlaudit.org

Management Responses to Audit Recommendations

Summary of Management Responses		
Recommendation #1:		
We recommend that the commissioner of the Department of Grants and Community Development enforce monthly reimbursement requests from subrecipients consistent with the department's policies and procedures to improve burn rate tracking.		
Response: Agree	Status: Started	Estimated Completion Date (M/Y): January 2023
Recommendation #2:		
We recommend that the commissioner of the Department of Grants and Community Development reconcile expenditures from Oracle with the funds the department has drawn down from HUD in IDIS before its next drawdown to ensure actual expenditures match the amount reported.		
Response: Partially Agree	Status: Started	Estimated Completion Date (M/Y): January 2023
Recommendation #3:		
We recommend that the commissioner of the Department of Grants and Community Development work with AIM and representatives from Neighborly to streamline Grants' internal trackers and identify if these could be linked to Oracle and HUD's reporting systems.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): December 2022
Recommendation #4:		
We recommend that the commissioner of the Department of Grants and Community Development continue to develop and enforce standard operating procedures for Section 8.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): December 2022
Recommendation #5:		
We recommend that the commissioner of the Department of Grants and Community Development implement a tracking system for Section 8 compliance.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): December 2022

Recommendation #6:

We recommend that the commissioner of the Department of Grants and Community Development establish a mechanism for documenting all steps of the monitoring process, including supervisory review, to ensure that staff comply with procedures and the process is transparent.

Response:

Partially Agree

Status:

Implemented

Estimated Completion Date (M/Y):

February 2023

Recommendation #7:

We recommend that the commissioner of the Department of Grants and Community Development update monitoring procedures and ensure that practices are consistent with procedures.

Response:

Partially Agree

Status:

Implemented

Estimated Completion Date (M/Y):

March 2023



CITY OF ATLANTA

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April 6, 2023

Honorable Mayor and Members of the City Council:

We conducted this audit of the Department of Grants and Community Development, focusing on calendar years 2021 and 2022, because previous audits identified heightened risks of noncompliance with grant requirements. While the department implemented new standard operating procedures in 2022 that addressed some risks identified in the previous audits, the Department of Grants and Community Development should continue to improve: financial tracking, particularly in regard to the Section 8 program, Section 8 oversight, and documenting monitoring procedures.

Our recommendations focus on enforcing monthly reimbursement requests, reconciling expenditures in Oracle and HUD's reporting system (IDIS), implementing procedures and a tracking system for the Section 8 program, and updating procedures for monitoring that include documenting all steps of the processes.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We sent a draft report to management on February 14, 2023, and received their response on March 4, 2023. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Rebecca Robinson, Lindsay Kuhn, and Neeka Benton.

Amanda Noble
City Auditor

Danielle Hampton
Chair, Audit Committee

Grants Management

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Introduction

We undertook this audit because previous performance and financial audits identified heightened risk of noncompliance with grant requirements. In February 2020, the city merged the former Office of Human Services within the Mayor’s Office and Office of Grant Management within the Finance Department to form the Department of Grants and Community Development. The department is charged with managing federal entitlement and competitive grants, foundation, state, and pass-through grants. This audit assesses controls in place to ensure timely and compliant administration of grant agreements.

Background

Grants Department Established in 2020 through Merger of Former Offices in the Mayor’s Office and Finance

The city created the Department of Grants and Community Development in February 2020, through Ordinance 20-O-1140. This department merged the former Office of Human Services and Office of Grants Management. The ordinance intended for the department to take over all grants citywide and outlined the following duties:

- manage grant compliance with applicable laws and regulations, including monitoring
- manage financial and performance reporting for grants
- coordinate the application process and review applications
- plan, coordinate, monitor, and evaluate the delivery of various social service grant programs
- improve the delivery of human services through advocacy, resource development, mobilization, collaboration, and coordination of resources
- assist in financing city-initiated housing and development programs
- assist builders and developers in various aspects of housing construction, rehabilitation, and financing in the city
- administer, implement, and execute housing redevelopment, renewal, and conservation programs

- provide relocation assistance to displaced persons and provision of community services and property management as required

Although Ordinance 20-O-1140 assigned management of all federal grants to Grants (the Department of Grants and Community Development), the department is currently only managing HUD (the U.S. Department of Housing and Urban Development) awards.

The city of Atlanta held 26 federal awards in fiscal year 2021—five of these are from HUD. Approximately 20% of all Atlanta households are eligible for at least one of the city’s HUD grants.

Audits identified heightened risks of non-compliance in the administration of grants through the former offices. HUD scrutinized the city’s management and oversight of its grants prior to the organizational change, particularly the Housing Opportunities for Persons with AIDS award. In 2019, HUD investigated this award due to allegations of mismanagement and a lawsuit from a former grantee. The investigation found chronic mismanagement, a persistent lack of financial controls, failure to provide accurate guidelines to subrecipients, inaccurate reporting, poor oversight, and other issues. HUD considered pulling funding from the city. Additionally, the city’s annual single audit of federal awards found similar problems with its HUD awards, particularly the Housing Opportunities for Persons with AIDS award.

Department Currently Managing Five HUD Awards

The department manages five HUD awards, which total more than \$30 million annually. In addition to the annual award funds, the city also received nearly \$21 million from HUD under the existing grant programs in COVID-related CARES (Coronavirus Aid, Relief, and Economic Security) Act of 2020 and ARPA (American Rescue Plan Act) Act of 2021 funding. These federal acts provided financial assistance for states and cities to respond to the COVID-19 crisis. The five grants are further detailed in Exhibit 1.

Exhibit 1: Grants Staff Managed Nearly \$200 Million in HUD Awards Active Between 2021 and 2022

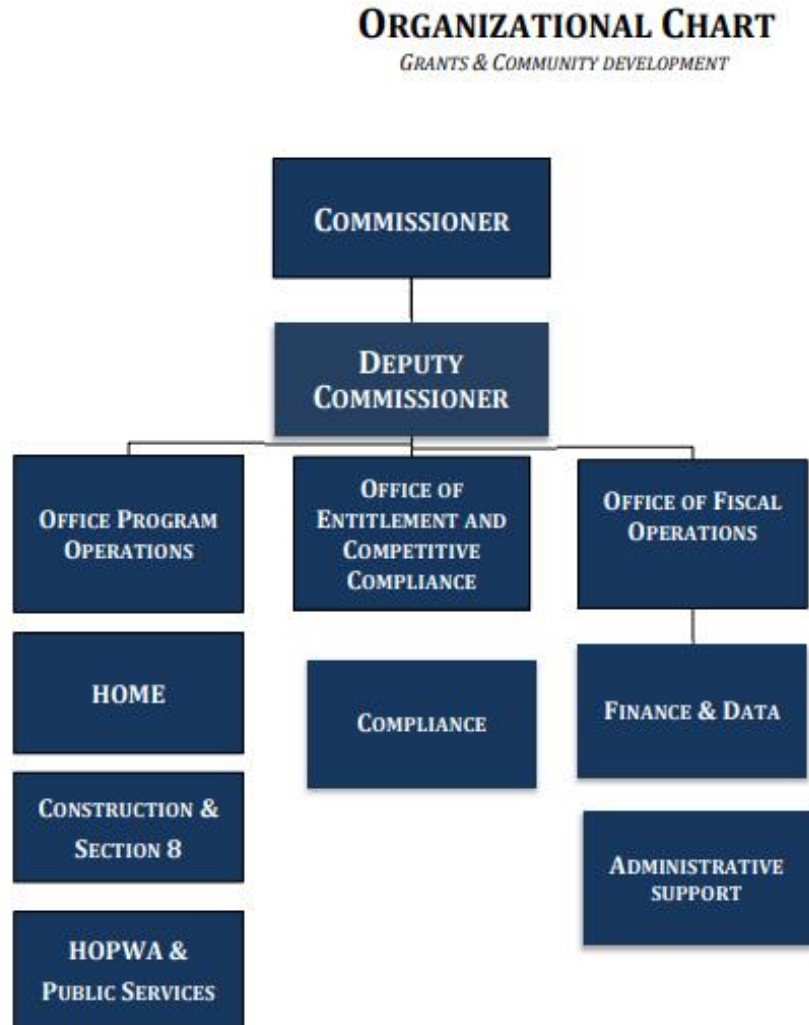
Award Name	Period	Amount	Description
Housing Opportunities for Persons with AIDS (HOPWA)	1/21/22-1/21/25	\$22,712,066	supports low-income people living with HIV/AIDS in relation to housing and similar support services through activities such as tenant-based rental assistance; short-term rent, mortgage, and utility assistance; and supportive services for people living with HIV/AIDS
	10/27/20-10/26/23	\$22,795,464	
	4/1/20-3/31/23	\$3,317,389	
	3/26/20-3/25/23	\$23,000,301	
	<u>9/11/18-9/10/21</u>	<u>\$23,101,950</u>	
	Subtotal HOPWA	\$94,927,170	
Community Development Block Grant (CDBG)	1/1/21-9/1/28	\$7,084,844	funds community development needs such as economic development and public infrastructure improvements and expands economic opportunities, particularly for low- and moderate-income persons
	7/29/20-9/1/28	\$4,209,808	
	7/29/20-9/1/28	\$3,703,601	
	7/1/20-9/1/27	\$7,156,340	
	1/1/19-1/1/26	\$7,139,553	
	1/1/18-1/1/25	\$7,185,087	
	1/1/17-9/1/24	\$6,613,822	
	1/1/16-8/31/23	\$6,703,852	
	1/1/15-8/31/22	\$6,721,270	
	<u>6/18/14-6/17/21</u>	<u>\$6,861,534</u>	
Subtotal CDBG	\$63,379,711		
Emergency Solutions Grant (ESG)	7/29/20-6/30/24	\$1,750,161	assists people experiencing homelessness and helps to prevent homelessness through rehabilitating or converting buildings for use as emergency shelters and covering certain operating expenses for emergency shelters
	1/21/22-1/20/24	\$610,308	
	10/22/20-10/21/22	\$627,336	
	7/29/20-7/28/22	\$2,163,228	
	7/29/20-7/28/22	\$10,965,024	
	<u>8/14/19-8/14/21</u>	<u>\$609,670</u>	
Subtotal ESG	\$16,725,727		
Home Investment Partnership Program (HOME)	1/1/22-9/1/29	\$2,204,974	addresses affordable housing for low-income households through activities such as building, buying, and rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income households (see note)
	9/20/21-9/30/30	\$7,991,553	
	2/8/21-9/30/28	\$2,113,138	
	10/23/19-9/1/27	\$1,967,828	
	8/29/18-9/1/26	\$2,136,864	
	10/19/17-9/1/25	\$1,525,065	
	8/22/16-9/1/24	\$1,532,314	
	<u>8/20/15-9/1/23</u>	<u>\$1,489,521</u>	
Subtotal HOME	\$20,961,257		
Section 8 Moderate Rehabilitation Program (Section 8)	12/22/22-12/31/23	\$140,211	a unit-based rental subsidy program for low and moderately low-income individuals and families
	9/1/22-8/31/23	\$345,664	
	12/17/21-12/31/22	\$508,176	
	5/15/22-5/31/23	\$200,588	
	10/17/20-12/31/21	\$583,956	
	<u>10/17/20-12/31/21</u>	<u>\$466,929</u>	
Subtotal Section 8	\$2,245,524		

Source: Award contracts provided by staff and descriptions of the awards provided on Grants' website and in HUD publications

Note: HUD monitored the city's Home Investment Partnership program in 2021, and the city suspended activities on the award pursuant to HUD's findings. HUD acquired technical assistance for the city for the award and provided a plan to spend the existing funds.

Grants and Community Development is organized into three offices. The department has a commissioner who reports to the city’s Chief Operating Officer. Grants is split into Program Operations, Fiscal Operations, and Entitlement and Competitive Compliance (see Exhibit 2).

Exhibit 2: Grants Manages HUD Awards Through Three Offices



Source: City of Atlanta FY23 proposed budget, p. 461

The department primarily acts as a pass-through entity for HUD awards. HUD directly awards the city funding for four of five awards based on a federal formula, and the city awards grants to subrecipients who directly provide services. Grants oversees these subrecipients and projects.

Grants manages Section 8 differently from the other four awards. Department staff performs four primary processes, as shown in Exhibit 3: awards, reimbursement, compliance monitoring, and reporting. For all but the Section 8 award, potential subrecipients apply to the department for funding, contract with the city to perform services, and work with Grants staff to receive reimbursements for allowable expenses and report on accomplishments. Grants also monitors subrecipients through desk and full monitoring reviews to ensure subrecipients are compliant with federal regulations and program terms; this is based on a quarterly risk assessment performed by staff. Grants did not conduct any monitoring reviews of Section 8 during our audit scope (2021 to 2022), but staff told us it would be included in future monitoring reviews.

Grants directly reimburses subrecipients for all programs except Section 8 after reviewing and approving reimbursement requests. The department later draws down funds from HUD to reimburse the city. As part of the HUD awards (excluding Section 8), Grants must submit an annual performance and financial report, an annual plan for how it will use the funds, and a five-year strategic plan. HUD also monitors the city regularly.

For Section 8, the department contracts to pay landlords and utility companies a portion of tenants' rent and utility costs, then pays these each month. The city provides HUD with a manual report at the end of the year detailing how it spent the award (see Exhibit 2). To manage these different processes, Grants created three Microsoft SharePoint trackers: a reimbursement tracker, a contracts tracker, and a purchase order tracker.

Exhibit 3: Grants Manages Section 8 Differently Than Other Awards

Process	Department	Subrecipient
Award	<ul style="list-style-type: none"> receives formula-based funding for all grants except for Section 8 Section 8 - Grants provides HUD with a budget for the amount needed 	<ul style="list-style-type: none"> department staff issues notices of funding availability prospective subrecipients apply for funding, and Grants evaluates applicants for successful applicants, Grants creates a contract for city council to approve after legislative approval, staff creates a purchase order request for the award and sets up the budget in the city's financial systems Section 8 - the city has agreements with three landlords
Reimbursement	<ul style="list-style-type: none"> department reimburses subrecipients from city funds, then draws down funds from HUD to reimburse itself later HUD allows the department to advance itself funds, but Grants employees told us they were no longer advancing funds Section 8 has a different draw-down process 	<ul style="list-style-type: none"> subrecipients spend funds and then request reimbursement from Grants; this is meant to happen monthly Fiscal operations staff reviews the reimbursement requests to ensure subrecipients have provided all supporting documentation and works with subrecipient staff if additional documentation is needed Section 8 - the department pays its portion of rent and utilities to the landlord, and the landlord collects the tenants' portion
Compliance Monitoring	<ul style="list-style-type: none"> HUD provides regular monitoring and ad-hoc monitoring for any issues 	<ul style="list-style-type: none"> Grants staff creates quarterly risk assessments to determine which subrecipients should receive a desk monitoring or a full monitoring staff notifies selected subrecipients a cross-team of department staff reviews documentation, such as reimbursement requests and monthly reports Grants issues findings and concerns to reviewed subrecipients Grants did not include Section 8 in monitoring reviews during audit period but told us it would be included in the future
Reporting	<ul style="list-style-type: none"> department provides the Mayor's Office of Innovation with monthly accomplishment reports Grants prepares a five-year strategic plan to submit to HUD staff submits an annual action plan yearly to HUD detailing how it will meet the five-year strategic plan goals department reports yearly on performance metrics and financial information Section 8 - Grants submits an annual financial report 	<ul style="list-style-type: none"> department requires subrecipients to submit monthly accomplishment reports for all awards except Section 8 staff reviews monthly reports

Source: Department's standard operating procedures as of July 2022 and interviews with department staff

Audit Objectives

This report addresses the following objectives:

- Are controls in place to ensure:
 - that the Department of Grants and Community Development spent grant funds on allowable goods and services within the specified timeframe?
 - that the department is accurately reporting?
- Does the department comply with policies, procedures, and federal regulations for subrecipient monitoring?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our audit focused on calendar years 2021 to 2022 for three of the department's programs: Housing Opportunities for Persons with AIDS, Emergency Solutions Grant, and Section 8. We identified these as the programs with the highest risk potential due to award amounts, findings from other audits, and differences in how the department manages awards. The Community Development Block Grant award received less funding and had no findings in the city's single audit. The Home Investment Partnerships Program was not active during our scope.

Our audit methods included:

- reviewing Grants' standard operating procedures and internal controls documentation
- reviewing legislation related to grants administration and Atlanta City Council Housing Opportunities for Persons with AIDS work sessions
- reviewing Grants' technical assistance trainings
- reviewing past internal audits and HUD audits to understand risks related to grant administration
- interviewing Grants staff to understand the processes for selecting, monitoring, and reimbursing subrecipients and executing contracts

- interviewing councilmembers to ascertain their concerns related to the department's management of the city's entitlement grants
- comparing Grants' financial reporting to amounts recorded in Oracle
- analyzing spending (burn) rates for Housing Opportunities for Persons with AIDS, Emergency Solutions Grant, and Section 8 programs
- analyzing supporting documentation for reimbursement requests to determine completeness
- analyzing documentation associated with full/virtual and desk monitoring to determine if it was consistent with standard operating procedures

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings and Analysis

Staff Developed Policies but Lagged in Reimbursing Funds and Managing the Section 8 Program

Grants staff implemented new policies and procedures in 2022 that addressed issues previously reported by subrecipients and HUD. These applied to all of the department's awards except for Section 8. The policies help the department to comply with federal and city regulations, mitigate the risk of HUD recapturing unused funds, and help ensure that services are provided to those in need. These policies also helped Grants staff strengthen its financial management by reducing the amount of time it takes to pay subrecipients, improving reimbursement request supporting documentation, clearing the city's invoice backlog, and meeting the recommended burn rate for over two-thirds of its active projects. More improvements, particularly in tracking, are needed to decrease the length of time between invoice dates and approvals and improve the accuracy of financial drawdowns. Strong financial management would help to reduce the risk of the city having to use general funds to reimburse HUD for disallowed costs.

While the department has improved many aspects of HUD award management, subrecipient oversight within the Section 8 program needs improvement. We found that 13% of sampled files did not meet HUD's eligibility standards. Department staff also failed to document some steps required by its internal policies and procedures for monitoring reviews, which the department uses to ensure subrecipients are compliant with HUD regulations and city policies. We recommend that Grants create or update its policies and procedures related to Section 8 and subrecipient monitoring to ensure compliance, steps which the department told us it was already starting to take during our audit. Strengthening and implementing internal tracking systems, as well as continuing to provide technical assistance to subrecipients, should improve timeliness and accuracy of reimbursements, burn rates, and drawdown amounts.

Department Implemented Procedures to Address Most Past Control Deficiencies with Grants Management

Grants developed policies and procedures in 2022 instituting controls to address previous HUD findings. These policies covered four of five awards; staff is currently drafting policies and

procedures for the Section 8 award. The department's policies and procedures included controls over monitoring, auditing, reporting, program management, and fiscal management, which aligned with both HUD standards and industry best practices. Adding Section 8 policies and procedures should ensure that Grants complies with HUD regulations for all five awards.

In 2022, Grants staff developed standard operating procedures to implement controls for all awards except Section 8. Grants developed detailed policies and procedures for four of five awards that covered monitoring and auditing subrecipients, reporting from subrecipients and to HUD, managing program operations, and fiscal management. These policies and procedures referenced applicable federal regulations, HUD guidance, and industry best practices. One control requires subrecipients to submit monthly accomplishment reports, which helps the department meet HUD's annual performance reporting requirement. Department staff created these policies and procedures after the organizational restructuring, and they help to address previous findings from HUD regarding grants management.

During our audit, the policies and procedures did not include Section 8, and Grants staff told us that the department was drafting them. The department's policies and procedures covered the other four awards—Housing Opportunities for Persons with AIDS, Community Development Block Grant, HOME Investment Partnership program, and the Emergency Solutions Grant. These programs are similar, and HUD previously issued findings on the first three.

Completed and updated policies and procedures improve subrecipient management, and the city's overall compliance with HUD regulations.

Grants exceeded HUD standards by requiring subrecipients to submit monthly accomplishment reports. HUD requires the department to report on its progress towards goals as part of the department's annual performance report. While creating the new policies and procedures, the department instituted a new reporting control that goes beyond HUD's requirement—subrecipients must submit monthly performance reports to Grants. The department also submits monthly reports to the Mayor's Office of Innovation and Performance. Requiring more frequent performance reporting should improve the accuracy of performance reporting to HUD.

Employees Have Improved Financial Management of Grants but Could Strengthen Tracking

Previous comments from subrecipients, as well as HUD audits, found that the city was not paying subrecipients in a timely manner, and reimbursement requests lacked supporting documentation. The city has a goal to pay vendors within 30 days from receipt of a final invoice with all supporting documentation. HUD and the current department's policies and procedures require monthly reimbursement processing. Grants staff reduced its median days to pay to 28 days in 2022, slightly below the city's goal. Staff also processed all outstanding invoices submitted prior to 2022. We found that 70% of active projects met the recommended burn (spend) rate, and over 90% of sampled reimbursement requests included enough supporting documentation to substantiate the payments.

Days to pay measures the length of time from when Grants staff receives a complete and accurate reimbursement request from the subrecipient, so it omits the time that staff spends reviewing and revising subrecipients' initial submissions. The review process (the time from the initial invoice date to Grants' approval) averaged eight months for our sample, as compared to only 28 days from receipt of finalized submission to payment. From the department's internal tracker, it appears that the longest gap is between the invoice date and when the subrecipient submits the request. The department's procedures call for subrecipients to submit reimbursement requests monthly, and staff told us that the department is already working to enforce this requirement.

Grants staff recorded spending fewer funds than it drew down for two of three awards reviewed during that period. While HUD allows this practice, the department noted that it no longer advances funds except in certain circumstances. We also observed incomplete and potentially inaccurate data in the department's tracking systems. During our audit, the department told us it began working with a software company to improve its trackers. Strengthening Grants' tracking systems should assist in managing burn rates and monthly reimbursement processing. The department should also continue to provide technical assistance to subrecipients to improve the timeliness and accuracy of reimbursement requests.

The department reduced median days to pay by 39% from 2022 to 2021 and was under the city's goal. Based on the department's report, Grants' median days to pay was 28 days in 2022; its median for 2021 was 46 days. The department also processed all invoices submitted prior to 2022 during the year, which was a deficiency previously identified by subrecipients.

When adding in invoices still outstanding as of January 2023, the department's median days to pay for 2022 increased slightly from 28 to 29 days, but median days for outstanding unpaid invoices during this period was 36 days. A minimal number of days to pay is important to ensure that subrecipients are able to continue performing activities and to retain subrecipients for the future. Grants employees told us they have been assisting subrecipients to clear previous reimbursements before processing newer requests.

Grants is providing technical assistance to subrecipients to move toward monthly reimbursement processing but averaged over eight months between invoice date and subrecipient submission for sampled invoices. According to the department's policies and procedures, subrecipients should submit reimbursement requests monthly. Along with the city's 30 days to pay goal, this means that Grants should reimburse subrecipients no later than two months after the subrecipient incurs the expense.

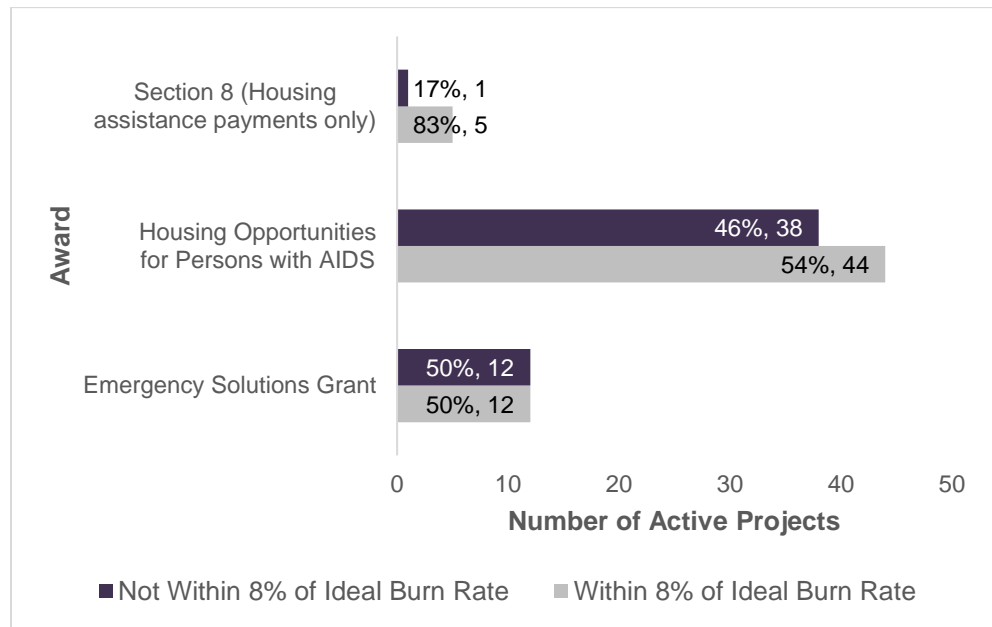
From our sample of 48 reimbursement requests from the Housing Opportunities for Persons with AIDS and Emergency Solutions Grant, we found that the department averaged over eight months between the subrecipients' invoice date and paying the subrecipient. The city averaged 250 days to process reimbursements for the Housing Opportunities for Persons with AIDS award, and 428 days for the Emergency Solutions Grant.

Grants staff told us that subrecipients often do not submit reimbursement requests monthly, and that the department has refrained from enforcing this policy more strictly because the city historically took so long to reimburse subrecipients. The department noted that it has been providing technical assistance to subrecipients to train them on the new supporting documentation requirements and to clear previous requests before reimbursing new requests. While clearing prior reimbursement requests is useful, Grants staff needs to ensure that this practice does not impact the department's ability to report accurately on expended funds, assess burn rate for projects, and drawdown the appropriate amount of funds. HUD can recapture funds not drawn down during

the award period. Department employees told us that they have begun enforcing this monthly requirement more recently.

Two of three active projects met the recommended burn rate. We assessed the burn rate for 112 active Housing Opportunities for Persons with AIDS, Emergency Solutions Grant, and Section 8 housing assistance payments for projects during 2021 and 2022. Of these, 70% (61) were within the recommended burn rate range, as shown in Exhibit 4.

Exhibit 4: Section 8 Had the Highest Percentage of Active Projects Within Recommended Burn Rate



Source: Auditor’s analysis of Oracle PnG Award Status and Project Status reports pulled on 11/23/22

Burn rate evaluates the rate of spending during the grant period. It is a project management indicator, as HUD can recapture unused funds. The department can also reprogram unused project funds, but this can still represent fewer activities benefiting those in need served by the projects. Additionally, projects can have unequal burn rates, spending more or less funding in certain months.

HUD’s monthly burn rate standard is equal to the contracted amount divided by total number of months. We created an 8% buffer for this amount as the recommended burn rate range, because it equals one-twelfth—or one month—divided by the 12 months in a year. For example, a 12-month contract with a budget of \$120,000 would have a burn rate standard of \$10,000 per month. With the 8% buffer, the ideal burn rate range would be between

\$9,200 and \$10,800 per month. If the grant had been active for 10 months and the subrecipient had spent \$60,000, the burn rate would be below the recommended range. The following burn rate calculation illustrates this example.

Sample Burn Rate Calculation

Sample project details: A 12-month contract with a budget of \$120,000 has spent \$60,000 and has been active for 10 months

HUD burn rate standard: $\$120,000 / 12 \text{ months} = \$10,000$ per month

8% buffer: $\$10,000 \times 92\% = \$9,200$; $\$10,000 \times 108\% = \$10,800$

Ideal burn rate range per month: \$9,200 - \$10,800

Actual burn rate: $\$60,000 / 10 \text{ months} = \$6,000$ per month

Source: Interview with Grants staff

We reviewed 133 projects under these awards that Grants completed during 2021 and 2022. Of the \$87.1 million budgeted for these projects, Grants underspent by \$5 million (6%); however, the department likely re-programmed these unused funds into later awards.

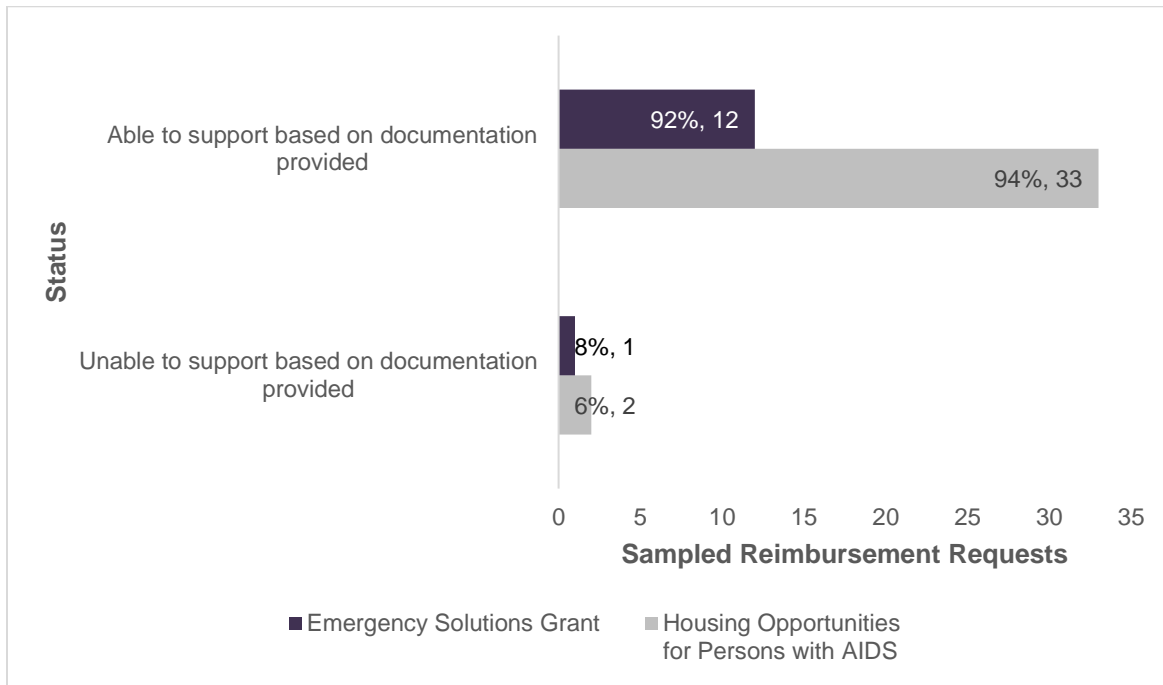
Some of the lags in the burn rate may be due to department staff clearing up previous reimbursements with subrecipients. Once Grants staff has caught up on these reimbursements and enforces subrecipients submitting monthly reimbursements, staff will likely be able to better assess actual burn rate. In the meantime, the department could improve tracking by having subrecipients submit total monthly expenses before submitting the full reimbursement package. We recommend that the commissioner of the Department of Grants and Community Development enforce monthly reimbursement requests from subrecipients consistent with the department's policies and procedures to improve burn rate tracking. Department staff told us that Grants is already working to enforce this policy.

Over 90% of reimbursement requests included most required supporting documentation. We reviewed a sample of 48 reimbursement requests from the Housing Opportunities for Persons with AIDS and Emergency Solution Grants awards submitted between 2021 and 2022. This represented 2.5% of the total

population of reimbursements. Of the 48 requests, 45 (94%) had most supporting documentation required by the department’s checklists, as shown in Exhibit 5. As part of creating its policies and procedures, Grants staff created checklists of between 7 and 11 documents that subrecipients must submit to receive reimbursement.

We found that three reimbursement requests lacked sufficient documentation to support the reimbursement, totaling nearly \$450,000 of \$2.6 million reimbursed (17%). Staff ensuring that subrecipients adequately support reimbursement requests helps to reduce the risk of having to use the city’s general fund to reimburse HUD for disallowed costs.

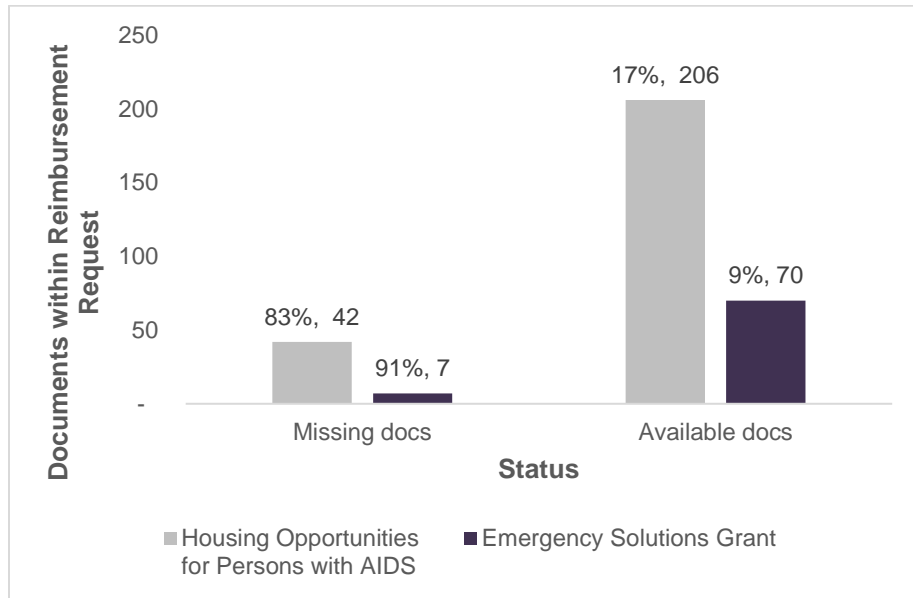
Exhibit 5: Documentation Available to Support 45 of 48 Reimbursement Requests



Source: Auditor’s analysis of sampled reimbursement requests based on documents from Oracle and the department’s files

To evaluate whether the subrecipient submitted the necessary information to validate the reimbursement, we analyzed each request’s documentation against the number of applicable documents from the checklist. For the 48 reimbursement requests sampled, we identified 325 applicable documents that should have been included in the reimbursement request file. These included documents such as bank statements, payroll reports, and invoice copies. Of the 325 documents that should have been in the files, we found 276 documents, or 85% (see Exhibit 6).

Exhibit 6: 276 of 325 Applicable Checklist Documents Found in Requests



Source: Auditor’s analysis of sampled reimbursement requests based on documents from Oracle and the department’s files

The department established policies and procedures detailing multiple levels of review for reimbursement requests, instituting separation of duties, and detailing when and how staff should update the reimbursement tracker. Staff provides technical assistance to subrecipients to train them on the supporting documentation required for reimbursement, but employees told us it is taking time for the subrecipients to adapt. This may have impacted the availability of documents. Also, Grants staff stores reimbursement request files on SharePoint and provides a link in the tracker to the relevant file. Grants set up a separate, larger SharePoint space and is working with a consultant to create additional space.

We recommend that the commissioner of the Department of Grants and Community Development continue to provide technical assistance to subrecipients to improve timeliness and accuracy of reimbursement requests.

Grants staff recorded spending fewer funds than it drew down from HUD for two awards reviewed. The department’s drawdowns from HUD differed for two of three awards reviewed—Housing Opportunities for Persons with AIDS as of November 2022, and Section 8 for 2021. Grants drew down nearly \$122,000 more than it recorded spending for Housing Opportunities for Persons with AIDS, which is less than 1% of the total drawn down for this award. For Section 8, Grants reported a little over \$33,000 more

than it recorded expending, or 5% of the total amount reported. While HUD allows for advancing funds, ensuring that expended and reported amounts match helps improve the department's financial management.

We found no deficiencies with the Emergency Solutions Grant report as of November 2022. For this award, the funds expended were greater than those drawn down. Grants told us it draws down funds quarterly, so discrepancies will be rectified in the next drawdown.

While HUD allows the department to advance itself funds, Grants staff told us it now only advances funds on a case-by-case basis. Department staff provided an explanation for the discrepancies for both awards, which are recorded in its response in Appendix A. More accurate burn rates and financial tracking could also better align drawdowns with funds expended.

We recommend that the commissioner of the Department of Grants and Community Development reconcile expenditures from Oracle with the funds the department has drawn down from HUD in IDIS before its next drawdown to ensure recorded expenditures match the amount reported.

The department should strengthen the accuracy of its tracking systems. The department must use multiple tools to report to HUD and the state for different awards, as well as to use the city's financial system. None of these tools capture the level of detail necessary to aid in Grants' project management, so the department created three additional trackers using SharePoint: a reimbursement tracker, a contract tracker, and a purchase order tracker. These tools are not connected, so Grants staff updates the trackers manually. HUD requires the city to maintain sufficient financial records and provide these upon request, which the trackers could help facilitate.

While the three trackers contained useful information, we identified potential data reliability issues, such as:

- the number of contracts in the contract tracker exceeded the number of purchase orders in the purchase order tracker
- certain contract and financial identification information were missing, leading to an inability to follow a project from the contract tracker to reimbursement requests in the reimbursement tracker
- potential duplicates in identification fields

- inconsistent and vague nomenclature for some fields, such as Oracle project number
- some fields blank for all projects within the tracker
- multiple entries with zero as the date

Errors and missing information in the trackers reduce their usefulness for project management and record retention. Grants staff told us the department signed a contract with Neighborly (a cloud-based software for housing, economic, and community development program administration) that includes an upgrade to the trackers, which may help to improve Grant’s data accuracy and completeness. Staff told us that Neighborly is close to being fully implemented. We recommend that the commissioner of the Department of Grants and Community Development work with AIM and representatives from Neighborly to streamline Grants’ internal trackers and identify if these could be linked to Oracle and HUD’s reporting systems.

Grants Staff Could Improve Subrecipient and Section 8 Oversight

Although the department improved its management of most awards and processes during our audit scope, Section 8 award oversight and subrecipient monitoring lagged. Client files for 2 of 15 Section 8 records in our sample did not meet HUD’s income eligibility for the program, and staff did not terminate one of these clients within the standard time frame. The department’s client files in our sample were missing 45% of the documents required by the department’s checklist for the Section 8 records. Also, Grants staff did not document evidence of following some of the monitoring review steps from its internal policies and procedures; we could not verify all aspects of the sampled monitoring reviews without this information.

Of 15 Section 8 client files we reviewed to determine compliance with program requirements, we found that 2 (13%) did not establish client income eligibility. We sampled 15 client files from the Section 8 program across all three of Grants’ properties. We compared each client file with the department’s Section 8 checklist and HUD’s yearly income limits, which staff uses to evaluate participant eligibility. For this program, Grants does an initial check and annually recertifies that the participant still meets income eligibility standards. If the department retains a participant who is no longer eligible, the city could have to pay those funds back to HUD, and residents in need of the services may not be able to access them.

Of the 15 Section 8 clients in our sample, 2 clients did not comply with income eligibility criteria. Those units received letters of termination from Section 8, but Grants issued one of these after the six-month period that HUD regulations allow.

We also found that 44% (303 of 691) of the required Section 8 documents in the client files were missing. As part of ensuring program eligibility, Grants uses a departmental checklist of essential documents to determine eligibility, continued eligibility, and subsidized rent amount. The checklist has 41 documents listed; these are department-specific forms and documentation required by HUD. These include:

- **Program-specific information:** communications between the department and tenant and lease
- **Annual eligibility verification:** employment and income verification, childcare documents, criminal history verification, utility bills, and inspection forms
- **Initial eligibility evaluation:** identification documents; housing, immigration, and disability status verification; eligibility letter, and forms for tenants to fill out

The Section 8 program is different from Grants' other HUD awards and has unique processes. The department told us that staff is currently drafting policies and procedures for the Section 8 program and working on improved tracking for the Section 8 compliance. Previously, the award was managed primarily by one staff member who was on extended leave during our audit. This may be why the Section 8 policies and procedures were drafted later. The department told us that it has hired new staff and is cross-training current staff to alleviate this problem in the future.

We recommend that the commissioner of the Department of Grants and Community Development continue to develop and enforce standard operating procedures for Section 8. We also recommend that the commissioner of the Department of Grants and Community Development implement a tracking system for Section 8 compliance. Department staff informed us that Grants is already working to implement both of these recommendations.

Full and desk monitoring processes did not include all required steps and documents. We sampled one subrecipient from the full monitoring review and five subrecipients from the desk monitoring reviews. Exhibit 7 shows the number and types of documents required by Grants' policies and procedures for each type of review, as well as the results of our tests.

Exhibit 7: Grants Staff and Subrecipients Followed Most Internal Steps for Full Monitoring but not for Desk Monitoring Reviews

Internal Requirements/ Sample Results	Type of Review	
	Full Monitoring Review (1 sampled)	Desk Monitoring Review (5 sampled)
Files required for subrecipients to submit	<ul style="list-style-type: none"> 21 documents, cover areas such as financial management, policies and procedures, performance data, and governance documents 	<ul style="list-style-type: none"> 4 documents, cover financial and project policies and files and 10 sampled client files
Results	<ul style="list-style-type: none"> All 20 applicable documents provided by subrecipient 	<ul style="list-style-type: none"> 10 of 20 documents (50%) provided by subrecipients
Files & steps required for Grants staff to complete	<ul style="list-style-type: none"> 3 documents, covers accounting system, a sample monthly reimbursement, and a sample HUD report 20 steps/documentation, including internal risk assessment, monitoring schedule, subrecipient notification, interviews, sampling, reports, corrective action plan, filled out HUD program exhibits, and correspondence between subrecipient and Grants staff 	<ul style="list-style-type: none"> Between 7 and 8 steps/documentation, including sample performance report, sample monthly reimbursement, internal risk assessment, monitoring tool, summary form, corrective action plan, and burn rate Financial management review covering 12 financial measures Review of 10 client files for eligibility
Results	<ul style="list-style-type: none"> All 3 internal documents documented 3 of 20 steps (15%) not documented 	<ul style="list-style-type: none"> 13 of 39 steps/documentation (33%) missing 13 of 60 financial measures (22%) missing 2 of 46 clients (4%) did not meet eligibility criteria

Source: Monitoring review files provided by Grants staff based on auditor's sample

We found that Grants staff missed documenting steps from its internal policies and procedures on both types of monitoring reviews. For both monitoring reviews, the department should follow its procedures and HUD's monitoring handbook to ensure the monitoring reviews meet the standards set forth by HUD. Grants staff told us that HUD does not require documentation of these steps, although the department's current policies and procedures indicate they are necessary. Grants' practices do not match its internal procedures and could result in some subrecipients not meeting eligibility, being reimbursed when eligibility is not met, or HUD recapturing funds.

In the desk monitoring review, Grants staff performed eight steps to determine which subrecipients to monitor; identify risks; and evaluate subrecipients' performance reporting, reimbursement requests, burn rate, and overall compliance. Subrecipients submitted half of the required documents, and Grants staff documented 26 of 39 (67%) of steps for the desk monitoring reviews. We noted an internal monitoring summary form that Grants staff fills out, which we did not find for any of the subrecipients. According to the department's procedures, this form is designed to summarize monitoring reviews and serve as the basis for the monitoring letter.

We were also unable to determine the sample reimbursement request that staff tested for two of five subrecipient files, so we could not completely evaluate those subrecipients' financial documentation. Additionally, we could not determine whether two (4%) of the 46 sampled clients met program eligibility criteria.

In the full monitoring review, the subrecipient provided all required documents. Grants documented 17 of 20, or 85%, of required steps. Having all documents related to the full monitoring review helps to ensure subrecipient compliance with federal regulations and departmental policies.

We recommend that the commissioner of the Department of Grants and Community Development establish a mechanism for documenting all steps of the monitoring process, including supervisory review, to ensure that staff comply with procedures and the process is transparent. We also recommend that the commissioner of the Department of Grants and Community Development update monitoring procedures and ensure that practices are consistent with procedures.

Recommendations

In order to improve project management and mitigate the risk of incurring unallowable expenses and HUD recapturing funds, the commissioner of the Department of Grants and Community Development should:

1. enforce monthly reimbursement requests from subrecipients consistent with the department's policies and procedures
2. reconcile expenditures from Oracle with the funds the department has drawn down from HUD in IDIS before its next drawdown
3. work with AIM and representatives from Neighborly to streamline Grants' internal trackers and identify if these could be linked to Oracle and HUD's reporting systems
4. continue to develop and enforce standard operating procedures for Section 8
5. implement a tracking system for Section 8 compliance
6. establish a mechanism for documenting all steps of the monitoring process, including supervisory review, to ensure that staff comply with SOPs and the process is transparent
7. update monitoring procedures and ensure that practices are consistent with procedures

Appendices

Appendix A: Management Review and Response to Audit Recommendations

Report # 23.01	Report Title: Grants Management	Date: April 2023
<p>Recommendation 1: We recommend that the commissioner of the Department of Grants and Community Development enforce monthly reimbursement requests from subrecipients consistent with the department's policies and procedures to improve burn rate tracking.</p>		
<p>Risk Category: Monitoring and Reporting</p>		<p>Response: Agree</p>
<p>Related Findings:</p> <ol style="list-style-type: none"> 1. Grants averaged over seven months between the subrecipients' invoice date and paying the subrecipient from our sample of 48 HOPWA and ESG reimbursement requests. 2. Three reimbursement requests lacked sufficient documentation to support the reimbursement, totaling nearly \$450,000 of the \$2.6 million reimbursed (17%). 3. We found 276 of the 325 applicable documents (85%) in the reimbursement request 4. Of the 112 projects under these awards that Grants completed during 2021 to 2022, Grants underspent by \$5 million. However, the department likely re-programmed these unused funds into later awards. 		
<p>Proposed Action: The Office of Program Operations has begun this process in conjunction with the Office of Fiscal Operations. All Management Analyst are required to meet with their assigned subrecipients on a bi- weekly basis if reimbursement requests follow submission expectations. Management Analysts meet with their subrecipients weekly if compliance is not being met.</p>		<p>Current Status: Started</p>
<p>Business Owner: Office of Program Operations and Office of Fiscal Operations</p>		<p>Estimated Implementation Date (M/Y): 01/19/2023</p>
<p>Additional Comments:</p>		

<p>Recommendation 2: We recommend that the commissioner of the Department of Grants and Community Development reconcile expenditures from Oracle with the funds the department has drawn down from HUD in IDIS before its next drawdown to ensure actual expenditures match the amount reported.</p>		
<p>Risk Category: Safeguard Assets</p>		<p>Response: Partially Agree</p>
<p>Related Findings:</p> <ol style="list-style-type: none"> 1. The department's drawdowns from HUD differed for two of the three awards reviewed, reporting nearly \$122,000 more for HOPWA than it spent and over \$33,000 more than it spent for Section 8. 		
<p>Proposed Action: HOPWA: The Department of Grants and Community Development did not draw down more than 122,000.00 in expenditures IDIS than spent down. DGCD received the following guidance from HUD: <i>City of Atlanta received and followed guidance from HUD's Atlanta CPD Office for its HOPWA 2018 extension, which involved submitting an amendment to the City's Annual</i></p>		<p>Current Status: Started</p>

<p>Action Plan (AAP) of projects that were originally to be used for the FY19 HOPWA grant. This allowed the City of Atlanta to draw the remaining FY18 HOPWA funds without triggering First-In-First-Out Accounting Methodology (FIFO), which was eliminated in 2015 in favor of Grant Based Accounting Methodology. The AAP amendment further required the City of Atlanta to re-award the FY19 project funds totaling approximately nine million dollars. The reconciliation of these funds required transactions in Oracle that were not immediately reflected in IDIS. This is likely why the internal auditors determined that more funds were drawn than were available to be drawn. IDIS is not structured to permit over-drawing of funds.</p> <p>DGCD is currently reconciling oracle and IDIS to be reflective of the guidance we received from HUD.</p> <p>Section 8: DGCD is committed to ongoing reconciliation and overall improved management of our Section 8 program. In addition, the overall period of performance of yearly expenditures for Section 8 does not operate on the calendar year, this allows DGCD to issue payments through May of the subsequent year. To date no overpayments have occurred, but additional reconciliation is needed to ensure oracle is reflective of HUD's reporting system.</p>	
<p>Business Owner: Office of Fiscal Operations</p>	<p>Estimated Implementation Date (M/Y): 1/2/2023</p>
<p>Additional Comments:</p>	

<p>Recommendation 3:</p> <p>We recommend that the commissioner of the Department of Grants and Community Development work with AIM and representatives from Neighborly to streamline Grants' internal trackers and identify if these could be linked to Oracle and HUD's reporting systems.</p>	<p>Risk Category:</p> <p>Monitoring and Reporting</p>	<p>Response:</p> <p>Agree</p>
<p>Related Findings:</p> <p>1. The department must use multiple tools to report to HUD and the state for different awards, as well as to use the city's financial system.</p>		
<p>Proposed Action:</p> <p>DGCD has contracted with Neighborly, and the projected go live date is May 2023 for subrecipients. The department has hire additional staff members assignment to data clean up of our internal trackers. HUD will not allow other systems to be linked with the federal IDIS system. However, Neighborly is better aligned with grant management standards and best practices.</p>	<p>Current Status:</p> <p>Implemented</p>	
<p>Business Owner: Office of Entitlement and Competitive Compliance</p>	<p>Estimated Implementation Date (M/Y): 12/20/2022</p>	
<p>Additional Comments:</p>		

Recommendation 4: We recommend that the commissioner of the Department of Grants and Community Development continue to develop and enforce standard operating procedures for Section 8.	Risk Category: Compliance with External Regulations	Response: Agree
Related Findings: <ol style="list-style-type: none"> Grants developed detailed policies and procedures for four of the five awards that covered monitoring and auditing subrecipients, reporting from subrecipients and to HUD, managing program operations, and fiscal management Of the 15 Section 8 clients in our sample, we could not determine whether two (4%) of the 46 sampled clients met program eligibility criteria. We also found that 44% (303 of 691) of the required Section 8 documents in the client files were missing. 		
Proposed Action: DGCD has transitioned the oversight of the Section 8 program to the Office of Entitlement and Competitive Compliance in August 2022. During the audit, the Office of Entitlement and Competitive Compliance provided updated policies and procedures. In addition, the Office developed and shared a corrective action plan that ensures problem remediation and works to rectify all existing compliance issues. Due to the audit lookback period the current practices were not yet implemented.		Current Status: Implemented
Business Owner: Office of Entitlement and Competitive Compliance		Estimated Implementation Date (M/Y): 12/1/2022
Additional Comments:		

Recommendation 5: We recommend that the commissioner of the Department of Grants and Community Development implement a tracking system for Section 8 compliance.	Risk Category: Compliance with External Regulations	Response: Agree
Related Findings: <ol style="list-style-type: none"> Of the 15 Section 8 clients in our sample, 2 clients did not comply with income eligibility criteria. Those units received letters of termination from Section 8, but Grants issued one of these after the six-month period that HUD regulations allow. We also found that 44% (303 of 691) of the required Section 8 documents in the client files were missing 		
Proposed Action: DGCD has worked to develop as Section 8 tracking has system.		Current Status: Implemented
Business Owner: Office of Entitlement and Competitive Compliance		Estimated Implementation Date (M/Y): 12/1/2022
Additional Comments:		

<p>Recommendation 6:</p> <p>We recommend that the commissioner of the Department of Grants and Community Development establish a mechanism for documenting all steps of the monitoring process, including supervisory review, to ensure that staff comply with procedures and the process is transparent.</p>	<p>Risk Category:</p> <p>Compliance with External Regulations</p>	<p>Response:</p> <p>Partially Agree</p>
<p>Related Findings:</p> <ol style="list-style-type: none"> 1. Grants staff missed documenting steps on both the full and desk monitoring reviews that we analyzed. Grants staff documented 26 of 39 (67%) of steps for the desk monitoring reviews. Two (4%) of the 46 sampled clients did not meet the programs' eligibility criteria and did not leave the program within the required time. 2. Grants documented 17 of 20, or 85%, of required steps on the full monitoring review we sampled. 		
<p>Proposed Action:</p> <p>DGCD has monitored every open and active contract and has exceeded the expectations as outlined by all applicable federal rules and regulations. In addition, each step was completed by the appropriate Management Analyst, Compliance Specialist, Program Operation Manager, and Director of Entitlement and Competitive Compliance. As stated during the audit, the desk monitoring and monitoring SOPs are to be used as a tool to ensure quality deliverables are received and approved. However, DGCD has updated the language in the SOPs to include recommend language and strongly encouraged wording. In addition, the development of a step-by-step checklist has been included which requires confirmation of each step and management signature.</p>		<p>Current Status:</p> <p>Implemented</p>
<p>Business Owner: Office of Entitlement and Competitive Compliance</p>		<p>Estimated Implementation Date (M/Y):</p> <p>2/15/2023</p>
<p>Additional Comments: Checklist Implemented</p>		

<p>Recommendation 7:</p> <p>We recommend that the commissioner of the Department of Grants and Community Development update monitoring procedures and ensure that practices are consistent with procedures.</p>	<p>Risk Category:</p> <p>Compliance with External Regulations</p>	<p>Response:</p> <p>Partially Agree</p>
<p>Related Findings:</p> <ol style="list-style-type: none"> 1. Grants' practices do not match its procedures; its practices indicate certain steps are necessary that staff later told us they were not required by HUD to document. 		
<p>Proposed Action:</p> <p>DGCD has monitored every open and active contract and has exceeded the expectations as outlined by all applicable federal rules and regulations. In addition, each step was completed by the appropriate Management Analyst, Compliance Specialist, Program Operation Manager, and Director of Entitlement and Competitive Compliance. As stated during the audit, the desk monitoring and monitoring SOPs are to be used as a tool to ensure quality deliverables are received and approved. However, DGCD has updated the language in the SOPs to include recommend language and strongly encouraged wording. In addition, the development of a step-by-step checklist has been included which requires confirmation of each step and management signature.</p>		<p>Current Status:</p> <p>Implemented</p>

Business Owner: Office of Entitlement and Competitive Compliance	Estimated Implementation Date (M/Y): 3/3/2023
Additional Comments: SOP updated	