Human Services Department
Emergency Rental Assistance Program

June 5, 2023

Report Highlights

Household Eligibility

Controls were in place to assess household eligibility.

Fraud Prevention

Controls that maintain a proper segregation of duties need reinforcing. Additionally, several supervisors did not perform required internal quality reviews to ensure that caseworkers followed eligibility requirements.

Financial Oversight

Checks appeared to have been processed accurately, with some instances of incorrect data due to typos. Subrecipient monitoring controls should be strengthened to ensure compliance with cost allocation requirements.

Executive Summary

Purpose

The objective of this audit was to determine that the Human Services Department (HSD) had controls in place to ensure compliance with federal requirements for the Emergency Rental Assistance (ERA) program.

Background

Between 2020 and 2022, measures taken during the COVID-19 pandemic caused households, businesses, and employers across the country to make changes to promote the health and safety of the people. As a result, many households were adversely impacted by employers that limited the amount of work hours and positions. Additionally, many households were impacted by increased costs, including costs for medical care, education expenses for children, and rising housing costs.

The U.S. Department of Treasury (Treasury) made funds available via the Consolidated Appropriations Act and the American Rescue Plan Act (ARPA) for the ERA program to assist households that were unable to pay rent or utilities. Program funds were provided directly to state and local governments. The City of Phoenix (City) received $106.4M in FY2021 and FY2022 to expand financial assistance to households impacted by the COVID-19 pandemic, of which $81.4M was distributed by HSD. In our review, we recognized that HSD services were impacted by staffing challenges during the pandemic and an overwhelming majority of applicants meeting the prioritization criteria.

Results in Brief

HSD had policies and procedures to cover federal requirements. However, the ERA program did not have effective controls for cost allocation requirements.

We found that HSD created policies and procedures that complied with Treasury requirements for an Emergency Rental Assistance program. We also found that HSD's subcontractor (Wildfire) had incorrectly included $99,500 in personnel costs with direct client costs. We reviewed HSD's internal tracking documentation and found that only 11% of applicants were tracked.

Overall, HSD had controls in place to document that clients met the eligibility criteria.

We reviewed 55 clients and found that 54 (98%) had all the required supporting documentation on file to confirm eligibility. One client had gaps in their records to confirm eligibility.

Supervisors were not performing monthly reviews of caseworkers who processed ERA applications for approval.

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We reviewed internal documentation of caseworker reviews between October 2021 and August 2022. During the review period, we found that only 13 of 28 supervisors (46%) performed reviews, and only 45 of 128 caseworkers (35%) were reviewed.

Overall, there appeared to be appropriate segregation of duties regarding the review and approval of payments. However, controls can be strengthened.

We reviewed 11,200 payment records and found four instances where the approver and processor were the same person. Though the number of transactions was low relative to the total, HSD should still ensure that supervisors are not approving their own work. Additionally, we found that supervisors can modify the access of other users in the case management system, bypassing department controls.

Overall, there did not appear to be any conflicts of interest found in the applications processed.

We reviewed ERA records for possible conflicts of interest, such as HSD employees processing applications for relatives, or HSD employee applications not being processed by an HSD supervisor, as required. All applications we found were processed by the correct staff.

Department Responses to Recommendations

Rec. #2.1: Establish and document operating procedures to ensure that applicants for future emergency assistance are tracked and assigned a caseworker within the required timeframe.	
Response: The current Case Management System electronically assigns emergency assistance applicants to a caseworker once an appointment is scheduled. Based on weekly staffing levels, a finite number of appointments are scheduled for follow-up with applicants. The Human Services Department does not have a required timeframe for responding to emergency assistance applications, however general practice is to assign appointments within one calendar week of when a completed application is received. This will be documented in current operating procedures.	***Target Date:*** July 1, 2023

Rec. #2.2: Establish and document operating procedures to prioritize and provide services to eligible emergency assistance applicants within a timely manner, as needed.	

Response: The ERA Program has publicly posted policy and procedures that state:
 	
VI. PRIORITY SERVICES
 	
Priority will be given to households at or below 50% AMI, or to those who have been unemployed for 90-days. To satisfy this prioritization requirement the following measure will be implemented:
 	
A. All Family Services Center Casework staff have access to provide services with ERA funds through any appointment type and will determine if one of the two stipulated priority criteria is met.
 	
B. Applicants through the Central Intake Line will be screened and asked the following question to determine if they meet the priority criteria.
 	
    a. What is your total monthly income?
        i. If the applicant falls at or below 50% AMI, they will be provided with an appointment within the week.
 	
    b. Have you recently lost employment?
        i. If yes, how long have you been unemployed? If more than 90 days, the applicant will be provided with an appointment within the week.
	Target Date:
	
	July 1, 2023

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C. As weekly appointments meet scheduling capacity, applicants who are identified meeting the stipulated priority criteria will be provided an appointment. Program staff will run a monthly report to track the timeline between application date and service delivery to review trends and opportunity for improvement.	

Rec. #3.1: Improve monitoring procedures to maintain all documentation required of subrecipients charged with distributing City funds.

Response: ERA Program subrecipients are contractually required to submit to internal audits by HSD staff for 5-10% of their served households each quarter. These quarterly audits were completed for all subrecipients in a timely fashion. Going forward, upon completing quarterly audits of subrecipients, the assigned Program Coordinator will review all finding responses and verify by reviewing the electronic case file that all required documentation has been added or maintained by the subrecipient. Audit notes will be maintained in the electronic file.	***Target Date:*** July 1, 2023

Rec. #3.2: Update the supervisory review process to include a review of cases and payments that were created and approved by the same person.

Response: CMS will be updated to disallow service approval if the service is entered by same user. In addition, a report showing creator, approver, and other service information will be developed.	***Target Date:*** July 1, 2023

Rec. #3.3: Review CMS access levels and determine if there is still a need for supervisors to have the ability to change access levels for other employees. Update CMS as necessary.

Response: CMS access for program staff will be updated as appropriate to perform their duties. Delegation designations will be disabled.	***Target Date:*** July 1, 2023

Rec. #3.4: Implement procedures to ensure that supervisory reviews are performed consistently and completely for clients receiving financial assistance, and that the identified findings are resolved in a timely manner.

Response: Five supervisory case file reviews or QAIs (Quality Assurance Index) for ERA cases are required to be completed per caseworker, per month. However, all emergency assistance applications for rental assistance must be approved by a supervisor before payment can be issued.	***Target Date:*** July 1, 2023

Completed QAI forms have previously been maintained by individual supervisors, however, will now be uploaded and retained in the electronic case file to ensure all documentation is in the proper place.	

Rec. #4.1: Ensure pending checks are reviewed regularly, and that CMS properly records any voids or reissues.	
Response: CMS will be updated to display complete check history for the service and reviewed bi-weekly.	**Target Date:** July 30, 2023

Rec. #4.2: Review interface between SAP and CMS to ensure that check information is being properly sent between the two systems.	
Response: IMS staff have reviewed the interface and discussed with SAP team. There are no issues with the interface related to this recommendation. In the selected instance, the service was manually updated giving the appearance of a check being issued prior to the service date. To ensure the integrity of the process, Fiscal staff will continue review interface files bi-weekly to validate transmissions and resolve any issues in a timely manner.	**Target Date:** July 1, 2023

Rec. #4.3: Review CMS controls over vendor selection to ensure vendors cannot be selected without a valid vendor ID.	
Response: IMS Staff ah reviewed the settings in CMS and verified there are no concerns with how the system is set up. An updated report has been created that will show the vendor ID that is sent to SAP. Staff will continue to review vendor selections daily to ensure accuracy and address any processing issues in a timely manner.	**Target Date:** July 1, 2023

Rec. #4.4: Improve documentation procedures to ensure that all manually distributed payments comply with Finance's guidance on the handling and documentation of warrants.	
Response: HSD will develop a written procedure for tracking payment warrants (checks) once they are manually picked up from the Finance Department and issued to a landlord/property manager. This will include documenting at each step who has possession of the check. Upon the landlord receiving a check, a document will be signed verifying the identity of the landlord/property manager receiving the check. A copy of this document will be uploaded to the applicant's official electronic case file.	**Target Date:** July 1, 2023

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HSD staff will work with Information Management Services (IMS) to develop a tracking tool to electronically account for checks at each step in the process and to acknowledge once the check has been given to the landlord.	

Rec. #4.5: Perform audit of Wildfire's ERA expenditures and recover funds that were not spent or had not complied with federal cost allocation requirements.	

Response: HSD identified outstanding balances due, notified Wildfire who remitted a check for the full amount. All outstanding funds have been recovered.	**_Target Date:_** May 9, 2023

1 – HSD ERA Program

Background

The City of Phoenix (City) received $141.4M between FY2021 and FY2022 to expand financial assistance to households impacted by the COVID-19 pandemic, of which $116.5M was distributed by the Human Services Department (HSD). To expedite funding distribution in the community, the City worked with the non-profit, Wildfire, as a subrecipient to distribute $25M of the funds received. Funding from the U.S. Treasury was provided in multiple allotments, each of which had slightly different requirements.

Emergency Rental Assistance Programs

ERA 1.0	ERA 2.0	ERA 1.0 Reallocated
• Financial impacted by the COVID-19 pandemic • Up to 15 months of financial assistance • Up to 10% allocated for administrative costs	• Financially impacted during the COVID-19 pandemic • Up to 18 months of financial assistance • Up to 15% allocated for administrative costs	• Reallocated ERA 1.0 funds • Same requirements as ERA 1.0

Each rental assistance program had specific qualification and usage requirements.

We interviewed staff and reviewed HSD's policies and procedures for the ERA program to determine if HSD established controls to ensure the efficient and effective delivery of ERA services.

Results

HSD established an emergency rental assistance program to provide assistance to more than 10K households.

HSD's ERA program utilized the existing Family Service Centers and Burton Barr Library to distribute funds to eligible households. Between March 2021 and August 2022, HSD provided $74.1M of direct assistance to 8,589 households and $22.3M to 2,817 additional households via Wildfire's partnering agencies. The remaining funds were used for administrative costs to operate the ERA program or had not yet been fully distributed at the start of this review.

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HSD developed policies and procedures to cover federal requirements, including program eligibility, services available, and documentation requirements.

Once the City received funding for the ERA program, HSD created a set of policies and procedures that complied with Treasury requirements.

HSD's ERA Policies and Procedures

ERA Treasury Requirement	HSD Policy & Procedure
Use of funds	Types of Services
Household income criteria	Alternative Income Sources
Eligible households	Program Eligibility
Prioritization of assistance	Priority Services
Distribution of financial assistance	Rental Assistance Payments to Tenants
Requirements for applications submitted on behalf of tenants	Additional Requirements
Working with other grantees to make the program consistent	Single Serving Agency
Documentation of rent/rental arrears owed	Required File Documentation
Tenants encouraged to apply directly for ERA	Application Process

HSD's policies were consistent with Treasury requirements.

Recommendation

None

2 – Household Eligibility

Background

The U.S. Department of Treasury (Treasury) requires that grantees of ERA funds follow federal guidelines for the implementation of an ERA program, and the distribution of ERA funds.

Treasury guidance requires that eligible applicants for ERA payments meet the following requirements:

- The household rented their home.

- The combined income of the household was at or below 80% of the area median income (AMI) for 30 days prior to application.

- The household experienced a financial hardship either due to (ERA1) or during (ERA2) the COVID-19 pandemic.

- The household demonstrated a risk of homelessness or housing instability.

- For prioritization of assistance, the household was at or below 50% of the area median income, and was either at-risk of homelessness, had housing instability, or had unsafe living conditions.

Our testing included a review to ensure all supporting documentation was on file to assess client eligibility. Allowable documentation could include pay stubs, public assistance records, employer notices, lease agreements, rent ledgers, identification records (e.g., driver's license), and evidence of additional incurred costs. If a household experienced an undue burden trying to obtain supporting documentation, Treasury guidance allowed for clients to submit a self-attestation in lieu of any of the above documentation; if a client relied solely on self-attestation, then the statement must reference eligibility for all requirements. Treasury also allowed for grantees to incorporate categorical eligibility and income-based fact-proxy tools to alleviate burdens when verifying household incomes when documentation was limited.

We interviewed staff, reviewed Treasury guidance, reviewed HSD's policies and procedures, and reviewed client documentation to determine that HSD had controls in place to document client eligibility.

Results

Overall, HSD had controls in place to document that clients met the eligibility criteria.

During the review period, HSD provided 8,589 households (clients) with $74.1M in direct emergency rental assistance. We reviewed data and records for 55 clients, totaling $326K in ERA payments, to determine if supporting documentation was on file to confirm eligibility. We also performed testing to verify that individuals resided within

the City's jurisdiction, and that households did not receive more than the allowable ERA payments.

In our review, we found that 54 of 55 clients (98%) had all the required supporting documentation on file to confirm eligibility, while four clients (7%) had gaps in their records. Gaps in client records included a lack of evidence to confirm income amount, COVID-19 impact, financial hardship, written attestation of eligibility, or client's confirmation that all information is true and complete when relying solely on attestation as evidence. The reviewed transactions for this client amounted to $4,987 in ERA payments to a potentially unqualified client. Without the required documentation on file to substantiate ERA eligibility, the Treasury could determine the expenses to be ineligible. We noted HSD followed Treasury guidance which recommended not causing an undue burden on clients when requesting supporting documentation which is why some client documentation was not required.

We also found that 12 of the 42 eligible households (29%) met ERA eligibility based primarily on the client's self-attestation of their eligibility rather than having evidence from primary sources (i.e., pay stubs, employer notice of employment change, bills for additional costs incurred, evidence of rent increase, etc.) that could verify eligibility criteria. Although the Treasury allowed for attestations to be a valid source of evidence, relying solely on attestations as evidence presents a high risk of opportunity for fraud in the program.

Our review of client records included an assessment to determine that HSD had not exceeded the allowable number of payments per household – 15 months for ERA1 funds or 18 months for ERA2 funds. Payments for all 55 clients complied with Treasury limitations. And all 55 client households resided within the City of Phoenix jurisdiction for ERA payment distribution.

HSD established procedures to begin prioritization of applicants at risk of homelessness. However, due to limited staffing, and the number of qualified applicants, the average processing time was 112 days.

HSD's ERA application review process included reviewing and tracking applications submitted via the online portal (Prefix) and developing an internal process to track clients internally within five days of the application to ensure prioritization of the applicant. Additionally, all applicants were assigned a case manager for follow-up.

HSD Internal Tracking

We reviewed HSD's internal tracking documentation, from July 2021 through February 2022, to determine if procedures were in place for initiating a review of applications within HSD's five-day practice, and prioritizing households most in need of assistance. HSD staff noted that EAL callers may not have been entered into Prefix, and were directly entered into CMS, and that CMS does not have any method to differentiate which clients utilized the EAL. Due to this limitation, we were unable to determine the true processing time from when the client called the EAL to when HSD assisted the client and when their payment was processed.

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<u>Applicant Prioritization</u>

We reviewed the processing time for all 4,344 clients that met the eligibility criteria for prioritized services and found that the overall processing time was not expedited for these households due to limited staffing and that over 80% of the applicants met the prioritization criteria of being at or below 50% AMI.

Household Prioritization

111 Days	98 Days	113 Days	112 Days
Households under 50% of the area median income	Households experiencing unemployment	Households receiving eviction prevention services	Overall average processing time for vulnerable households

Processing time did not meet internal metrics.

Recommendations

2.1 Establish and document operating procedures to ensure that applicants for future emergency assistance are tracked and assigned a caseworker within the required timeframe.

2.2 Establish and document operating procedures to prioritize and provide services to eligible emergency assistance applicants within a timely manner, as needed.

City Auditor Department

3 – Fraud Prevention

Background

Treasury requires that fraud prevention measures are in place to ensure financial oversight of ERA funds. HSD's internal controls for fraud prevention included:

- Segregation of duties over the processing and approval of applications.
- Escalation procedures for applicants that were also HSD employees.
- Monthly supervisory audits of HSD case files.
- Quarterly audits of subrecipient case files.

To determine that HSD had sufficient controls in place to prevent fraudulent transactions and the misappropriation of funds, our testing included a review of ERA staff monitoring procedures, approval of applications, and potential conflicts of interest.

Results

Supervisors did not perform monthly reviews for 83 of 128 caseworkers (65%) that had processed ERA applications for approval. Only 13 of 28 supervisors (46%) had performed ERA reviews of caseworkers.

Supervisors were required to review five case files per caseworker each month. We reviewed quality review documentation between October 2021 through August 2022, and we found that not all supervisors performed monthly reviews, resulting in gaps in supervisory controls:

- 13 of 28 supervisors (46%) performed quality reviews.
  - 15 supervisors (54%) did not perform reviews. A fifth of these supervisors (3) were fully dedicated to the ERA program.
- 45 of 128 caseworkers (35%) were reviewed.
  - 83 caseworkers (65%) were not reviewed. Over half of these caseworkers (46) were fully dedicated to the ERA program.

Staff reported that 37 of 83 non-reviewed caseworkers were not specifically assigned to the ERA program, but rather were caseworkers at the Family Services Centers (FSC). HSD allowed FSC caseworkers to assist eligible clients with applying for rental assistance via the ERA program but did require them to follow the same quality review procedure as ERA caseworkers. The remaining 46 caseworkers were primarily supervised by ERA supervisors that did not perform monthly reviews. HSD staff acknowledged the finding of ERA supervisors not performing their required duties. Additionally, HSD staff noted that they had not checked on FSC caseworkers to determine that their case files were held to the same standard as ERA caseworkers.

Overall, HSD performed routine audits of subrecipient case files, including confirmation that all findings were resolved. However, we could only confirm that 73% of the findings were corrected.

HSD partnered with 11 community organizations to assist with the application and distribution of funds for the ERA program. The Treasury requirements also extend to these groups, including implementation of fraud prevention measures.

Subrecipient Audit Findings

In 2021, HSD audited 150 of 2,817 subrecipient case files (5.3%), with 22 cases resulting in findings related to missing documentation. We reviewed HSD's audits and the corresponding case records and found that 16 of 22 cases (73%) had the necessary documentation on file to resolve the findings. The remaining cases were missing documentation to validate that the findings were corrected. HSD staff were not able to locate the missing documentation as of the close of this review.

Subrecipient Client Eligibility

We reviewed two case files from each of the 11 partnering organizations, 22 in total, that were not audited by HSD, to determine if documentation was on file in Prefix to support client eligibility, and that payments were valid. We found that 20 of 22 case files had the required documentation to support eligibility for ERA payments. The remaining case files did not contain clear documentation to verify the clients' COVID-impact or housing instability, amounting to payments totaling $14,173 to potentially unqualified clients. HSD staff provided additional documentation; however, the documents' dates were inconsistent with the dates that clients were paid.

Overall, there appeared to be appropriate segregation of duties regarding reviewing and approving payments. However, controls can be strengthened to ensure segregation of duties exceptions are reviewed, and that employees are unable to modify the access for other users.

HSD had a process to have a supervisor review cases that have been approved for payment by a caseworker. We reviewed payments issued to verify that the reviewing person was different than the person who processed the payment. We reviewed 11,200 records and found four instances where the approver and processor were the same person. Staff did not have documentation to show this was authorized. Though the number of transactions was low relative to the total, HSD should still ensure that supervisors are not approving their own work or have a process to review any such transactions to validate they were processed accurately.

Additionally, HSD IT staff indicated that HSD supervisors have the ability to modify the access of other users in CMS, granting them supervisor capabilities. HSD's IT staff would not know that these changes were happening. HSD should ensure that all user account access changes are properly routed through IT staff.

Overall, there did not appear to be any conflicts of interest found in applications processed.

City Auditor Department

HSD had a process for all HSD employees who applied for ERA assistance to have their applications processed by an HSD supervisor. The process also required that HSD employees could not process applications for their relatives. We obtained records of all ERA client and household member names and addresses, client landlords' names and addresses, and City of Phoenix employees, their beneficiaries, and their emergency contacts' names and addresses. Due to the data coming from multiple systems, the formatting was inconsistent. We attempted to standardize all fields to allow for testing We analyzed the resulting data to look for relationships between HSD employees and ERA recipients. The purpose of this testing was to look for any HSD employees who were not processed by an HSD supervisor, and also to look for any potential conflicts of interest, where an HSD employee processed a case for a relative.

In total, we found 38 matches from our testing. We reviewed the matches to validate that they met HSD policy. All cases appeared to have been processed correctly.

Recommendations

3.1 Improve monitoring procedures to maintain all documentation required of subrecipients charged with distributing City funds.

3.2 Update the supervisory review process to include a review of cases and payments that were created and approved by the same person.

3.3 Review CMS access levels and determine if there is still a need for supervisors to have the ability to change access levels for other employees. Update CMS as necessary.

3.4 Implement procedures to ensure that supervisory reviews are performed consistently and completely for clients receiving financial assistance, and that the identified findings are resolved in a timely manner.

4 – Financial Oversight

Background

Treasury guidance requires that grantees of ERA funding should adhere to certain cost allocation requirements. Additionally, the City has specific guidance on how vendors should be set up in the City's accounting system, and how payments should be handled and distributed to ensure that checks are provided to the correct payee.

This audit included a review of controls that HSD had over the allocation, processing, and distribution of ERA funds.

Results

Checks appeared to have been processed accurately. However, there were some instances of incorrect data that were attributed to typos in CMS. Additionally, it did not appear as if pending checks were being reviewed by HSD staff.

We reviewed the list 11,200 checks that had been issued from CMS through August 31, 2022, for ERA funds to determine that checks were processed correctly. Signs of incorrect processing included checks that were issued prior to the CMS service date (which could be an indication of the check being issued without an application), duplicate checks, and checks that appeared to have been issued long after they were approved, which could delay the client getting rental assistance.

We found one check that appeared to have been sent prior to the service date. However, HSD staff confirmed the correct service date, which was prior to the check being issued. The incorrect date was attributed to a typo in CMS. We found one duplicate check, which was voided, as required.

While reviewing the length of processing times for checks, we found 99 checks that took longer than 30 days to process. These long periods could potentially delay a client from getting needed rental assistance in a timely manner. HSD had a process for reviewing checks that were outstanding for more than three days, yet these checks were outstanding for much longer. Upon review of 11,200 checks, HSD noted that the checks were voided and reissued after the initial processing date listed in CMS However, CMS did not accurately reflect that the checks were originally voided or reissued, nor did it correctly display the actual processing time. HSD staff should ensure that this information is properly captured in CMS.

Vendors reviewed were correctly set up in the City's financial system (SAP) with the required information. However, some vendors in CMS did not have their vendor ID listed.

Payments to ERA clients required the client to be a vendor in the City's financial system, SAP. All vendors should have a vendor profile with an ID in SAP that should also be listed in CMS. This profile was created by Finance staff after reviewing the

vendor and included tax information for the vendor. Having this ID listed in CMS ensured they were a valid vendor. We selected a sample of 30 vendors from CMS who received ERA checks and reviewed their profiles in SAP. Each vendor had a profile in SAP that included required tax identification numbers.

We also reviewed all checks that had been issued through August 31, 2022, and found four vendors who received checks but did not have a vendor ID in CMS. We were able to find each vendor in SAP, and they were each set up correctly. Each of these vendors also had a profile in CMS that included the vendor ID. However, the checks were issued using a duplicate vendor profile in CMS for each that did not include the vendor ID. Per HSD staff, CMS should not allow the check to be processed without an SAP vendor ID. HSD staff were unable to explain how the accounts were usable without an SAP vendor ID and should review CMS to ensure the system will not allow such accounts to be usable.

HSD did not have supporting documentation to confirm that all manually held checks were picked up by an authorized individual. Overall, documentation was missing for 171 (39%) of the approved checks.

We reviewed a selection of 12 checks were held by Finance for manual pick-up, at the request of HSD staff. HSD appeared to have procedures in place to process and hold these manual checks, including the creation of memos provided to Finance, and a tracking sheet that recorded all the checks picked up by HSD staff. Finance maintained documentation indicating that checks were picked up by approved HSD staff. However, when we reviewed documentation to determine if the checks were picked up from HSD by the intended payee or another authorized individual, we found that HSD was missing documentation for 10 of 12 payments. According to Finance's warrant (check) pick-up guidelines, departments are required to maintain records of all manually distributed checks.

Additionally, we reconciled the number of checks that Finance approved for pick-up with the number of checks HSD maintained records for. We found documentation for only 262 of the 433 checks approved between June 2021 and June 2022. This resulted in 39% of the approved checks missing documentation, with the potential impact of those payments being distributed to unauthorized individuals.

HSD did not have sufficient controls to ensure that the subrecipient Wildfire had complied with federal cost allocation requirements, resulting in $100,481 of funds incorrectly allocated.

HSD worked with the vendor Wildfire as a subrecipient to distribute $25M of ERA funds to the community in an expedited manner, via 11 partnering community agencies. HSD provided federal guidance to Wildfire to ensure compliance with ERA requirements.

We reviewed HSD's controls to ensure that the vendor Wildfire had complied with federal cost allocation requirements for the use of ERA funds, including that at least 90% of funds are for financial assistance (direct payments) to eligible households, and that up to 10% of funds can be reserved for administrative costs. In our review, we found that Wildfire had procedures to ensure that payments to partnering agencies were

consistent with cost allocation requirements. However, we found that Wildfire's overall allocation of direct costs (financial assistance) had incorrectly included $99,500 of personnel costs that should have been attributed to Wildfire's total administrative costs.

We recalculated Wildfire's total expenditures to account for this oversight. Wildfire's total direct costs were $22,395,692; therefore, Wildfire's administrative costs should not have exceeded $2,488,410 (10% of the total). Since Wildfire reported spending $2,588,891 on administrative costs, this resulted in Wildfire's misallocation of $100,481. We followed up with HSD fiscal staff, who noted that Wildfire considered personnel costs for case management services to be included in direct costs. HSD accepted Wildfire's justification without distinguishing between the Treasury's general definition of "direct costs" and the ERA requirements for direct financial assistance.

We did not find evidence of duplicate payments for the same rental period. However, HSD staff did not review prior payments to the same address for the same rental period.

Treasury guidance stipulates that households may not be paid multiple times for the same rental period. HSD staff noted that CMS did have some preventative tools to ensure that would not happen; however, staff also stated that there was no process to check if a landlord was paid twice for the same rental period. We reviewed the list of payments issued to clients and compared the dates of service with service addresses and clients to determine if there were any addresses that were paid for the same rental period. Due to ERA payments being made for up to three months in advance, we only reviewed records where the service dates were less than 90 days apart.

We initially discovered seven transactions where checks were issued to different people at the same address for periods less than 90 days apart. We forwarded the list to HSD staff for review with the following results:

- Three were confirmed to be from different periods.

- One involved two roommates, who were paying separately for their rents.

- Three had addresses that were entered incorrectly and were not for the same residence.

Overall, there was no evidence of landlords being paid multiple times for the same period.

Recommendations

4.1 Ensure pending checks are reviewed regularly, and that CMS properly records any voids or reissues.

4.2 Review interface between SAP and CMS to ensure that check information is being properly sent between the two systems.

City Auditor Department

4.3 Review CMS controls over vendor selection to ensure vendors cannot be selected without a valid vendor ID.

4.4 Improve documentation procedures to ensure that all manually distributed payments comply with Finance's guidance on the handling and documentation of warrants.

4.5 Perform audit of Wildfire's ERA expenditures and recover funds that were not spent or had not complied with federal cost allocation requirements.

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Scope, Methods, and Standards

Scope

This audit included a review of ERA payments processed between FY 2021 through FY 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities

    o Management should design control activities to achieve objectives and respond to risks.

    o Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

    o Management should implement control activities through policies.

- Information and Communication

    o Management should internally communicate the necessary quality information to achieve the entity's objectives.

    o Management should externally communicate the necessary quality information to achieve the entity's objectives.

Methods

We used the following methods to complete this audit:

- Interviewed staff.
- Reviewed U.S. Treasury guidance.
- Reviewed internal policies and procedures.
- Reviewed and assessed client data.
- Reviewed supporting documentation.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of CMS, Prefix, and eCHRIS data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that

produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.

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