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MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
222 THIRD AVENUE NORTH, SUITE 650
NASHVILLE, TENNESSEE 37201

August 31, 2005

Thomas Davis, Board Chairperson
Citizens for Affordable Housing
1719 West End Avenue. STE 322
Nashville, TN 37203

Dear Mr. Davis:

Please find attached the Monitoring Report of the Citizens for Affordable Housing Program relating to the contract it has with the Metropolitan Government of Nashville and Davidson County for the fiscal year ending June 30, 2005.

The Office of Financial Accountability (OFA) is charged with the responsibility of monitoring grant funds from Metropolitan Nashville Government to nonprofit organizations. The OFA is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government. Staff from the OFA conducted the review on August 11, 2005.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at 615-880-1035.

Sincerely,

Fred Adom
Director

cc:
Patricia Davis, Citizens for Affordable Housing
David Manning, Director of Finance
Talia Lomax-O'dneal, Deputy Director of Finance
Mitzi Martin, Division of Accounts
Kim McDoniel, Internal Audit
Bill Walker, Office of Financial Accountability



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◆ Monitoring Report of ◆

Citizens for Affordable Housing Program



Issued by



Office of Financial Accountability

August 31, 2005

Fred Adom, CPA
Director

Bill Walker, CPA
Auditors

Our Vision: To be excellent and proficient in monitoring and management services.

Monitoring Report
for the
Citizens for Affordable Housing

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OBJECTIVES, SCOPE AND METHODOLOGY

The Office of Financial Accountability (herein after referred to as OFA) is charged with the responsibility of monitoring grant funds from Metropolitan Nashville Government to any nonprofit organizations, which receive appropriations from the Metropolitan Nashville and Davidson County government. The OFA is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government.

We have completed a monitoring review of the Metropolitan Nashville Government grant to the Citizens for Affordable Housing Program for the year ended June 30, 2005. A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements and accordingly, does not express an opinion or any assurance regarding the financial statements of the Citizens for Affordable Housing Program. Our objectives for this review were:

- 1) To determine whether the agency has the resources and capacity to administer the grant funds
- 2) To test if costs and service are allowable and eligible
- 3) To verify that program objectives are being met
- 4) To test the reliability of the financial and programmatic reporting
- 5) To test the reliability of internal controls
- 6) To verify contractual compliance

The review was limited to the Metropolitan Government of Nashville and Davidson County grant L-1235 in the amount of \$50,000.00 to the Citizens for Affordable Housing Program for the fiscal year ending June 30, 2005. The Citizens for Affordable Housing Program was established as a nonprofit housing and credit counseling agency incorporated in the State of Tennessee. The purpose of the program is to provide budgeting, credit, pre-purchase, mortgage default, and homebuyer education to low to moderate-income individuals in Nashville and the surrounding areas. The program is supported primarily through grants, fund-raisers and donor contributions. In addition, the agency generates fees from providing homebuyer-counseling classes. From January 1, 2004 through December 31, 2004, the Citizens for Affordable Housing Program recorded \$108,537 in revenue. Of this amount, grant L-1235 represented approximately 46% of the total support provided to the program. An additional 17% came from donor contributions, while 12% of revenues were derived from local fundraisers.

The Citizens for Affordable Housing Program has a staff of 2 full-time employees. The majority of program participants are referred to the program through local financial institutions or the agency's weekly radio program. The program served over 743 clients from July 1, 2004 through June 30, 2005 and took over 286 calls during the year on the agency's radio program. The agency served 128 clients in its pre-purchase program, 36 clients with its mortgage program, 77 clients with its creative financing program, 213 clients with its homebuyer classes and 3 clients with its rental program.

To accomplish our objectives of the monitoring review we:

- Interviewed the officials responsible for the grant management, financial reporting, and accountability.
- Reviewed controls and supporting documentation of expenditures for allowability, necessity and reasonableness of the costs incurred.
- Reviewed operations and activities offered by the Citizens for Affordable Housing Program and its compliance with the intended beneficiaries of the grant funds.
- Reviewed the financial stability of the Citizens for Affordable Housing Program and its ability to continue to administer the grant program funded by Metro.
- Reviewed the general ledger to verify the accuracy of the agency's invoices submitted to Metro.

RESULTS OF MONITORING

The overall results of the monitoring review for the Citizens for Affordable Housing Program are provided in this section. The results are based on tests performed and include conclusions regarding the specific review objectives and, if applicable, recommendations for improvement and an action plan for implementing the conclusions. Where applicable, the Findings and Recommendations section of the report provides more insight into the problem identified in the results below.

1. Possess necessary resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualification of the individuals assigned to manage the accounting records, and other available resources, indicates that the Citizens for Affordable Housing Program possesses the necessary resources and expertise to administer the grants funds. The agency's fiscal staff has several years of grant accounting experience.

The Citizens for Affordable Housing Program's Board of Directors is comprised of 12 members with diverse professional backgrounds. The OFA obtained and reviewed the board minutes for the grant period. The OFA noted that Board Members did not appear to be actively involved in the oversight of the program. The Board Members met only twice during the grant period. The Board members canceled one of these meetings due to lack of attendance. The Board of Directors serves a role that is critical in the oversight of the agency. The OFA recommends that the Board members meet with more frequency and play a more involved and active role with the agency.

2. Allowable and Eligible costs and services

The contract between Metropolitan Nashville Government and the Citizens for Affordable Housing Program for the year ended June 30, 2005 required the Citizens for Affordable Housing Program to use the grant funds to provide budgeting, credit, pre-purchase, mortgage default, and home buyer information to low to moderate income individuals in the Davidson County area. Our review determined that the Citizens for Affordable Housing Program was in compliance with this requirement.

The grants manual specifies for the separate accounting of the Metropolitan Nashville Government grant funds to prohibit co-mingling of the Metro Funds with other sources of funding. The agency is compliance with this requirement of the grants manual. The agency has established different revenue classes as well as expenditure classes, so the agency can accurately track the sources and amounts of their funding.

3. Program objectives being met

The contract between Metropolitan Nashville Government and the Citizens for Affordable Housing Program for the year ended June 30, 2005, states that the anticipated results for the program are to serve 135 clients in the pre-purchase program, 40 persons in the mortgage default program, 10 persons in the rental program, 80 persons in the creative financing program and 250 persons in homebuyer classes. During fieldwork, the OFA noted that the agency served 128 clients in the pre-purchase program, 36 in the mortgage default program, 77 in the creative financing program, 213 clients in homebuyer classes, and 286 through a weekly talk show conduct by the director of the agency. While the agency did not meet the anticipated results, the variance between expected and actual results does not appear to be material. Our tests reveal that program objectives appeared to be being met.

4. Reliability of financial and programmatic reporting

The contract called for submission of an annual audit report performed by a Certified Public Accountant. The Citizens for Affordable Housing Program is required to submit to Metro reports of the program outcome and a final expenditures report 45 days after the close of the contract. Our review determined that the Citizens for Affordable Housing Program was in compliance with this requirement.

RESULTS OF MONITORING

5. Reliability of internal controls

Our review of the internal controls of the Citizens for Affordable Housing Program revealed that the agency appeared to be well managed but needs to improve its internal controls in some areas. During fieldwork, the OFA obtained and reviewed the agency's Accounting Manual. The OFA noted that the procedures and controls in the manual were well designed; however the agency did not follow these procedures during the grant period. The OFA also noted instances where a board member had pre-signed blank checks for the director and employee to pay agency expenses. Our review of the internal controls of the Citizens for Affordable Housing revealed that the agency does not always maintain receipts/invoices to support grant disbursements. Finding #1 in the Findings and Recommendations section provides further discussion on the agency's need to improve its documentation to support grant expenditures. Internal controls help ensure the integrity of the accounting system and related reporting. Decision-making is hindered when strong internal controls do not exist. The OFA recommends that the agency diligently adhere to the policies and procedures in the Accounting Manual. The OFA also noted that the Board of Directors did not provide sufficient oversight during the grant period.

6. Civil rights requirements

Our review did not reveal anything to indicate that the Citizens for Affordable Housing Program was not in compliance with civil rights requirements. The agency had not received any complaints regarding any form of discrimination and the agency had civil rights and ADA posting in public places. The Citizens for Affordable Housing Program employee handbook addresses the agency's civil rights policy as well.

FINDINGS AND RECOMMENDATIONS

1. Needs to improve documentation of expenditures and implementation of Internal Controls.

Finding

Based on the test work completed, the Citizens for Affordable Housing (CAH) appeared to have expended funds in a manner consistent with grantor guidelines. The expenses appeared to be reasonable and related to program objectives. However, according to CAH accounting procedures, all expenses are to be pre-approved in writing by a Board Member and the Director of CAH. While both the Director of CAH and one of the board members have the authorization to sign checks, the accounting policies dictate that a board member must review all expenditures before they are paid. . During fieldwork, the OFA noted that the board member had “pre-signed” several blank checks, thus bypassing the review process. The OFA also noted that payroll records were not maintained. The CAH has 2 employees; the director and an assistant. The assistant is paid a base salary plus a commission determined by the number of clients the employee assist during the payroll period. The director indicated that since CAH was such a small agency she was able to keep up with the number of clients the employee served and thus pay the appropriate commission. As the agency did not keep adequate documentation regarding how the commission was calculated, OFA was unable to test payroll.

As stated in the Metro Grants Manual, costs should meet the following criteria to be allowable:

- a. A reasonable use of funds,
- b. A necessary use of funds,
- c. For a reasonable amount,
- d. For a clear purpose,
- e. Consistent with the purpose of the Grantee’s program,
- f. Compliant with the terms and purpose of the Metro grant,
- g. Authorized within the budget,
- h. Properly approved,
- i. Adequately documented.

The OFA did not question any of the cost reported to Metro, however such weaknesses could lead to questioned cost in the future. The OFA obtained and reviewed the Citizens for Affordable Housing’s accounting manual. The OFA noted that the internal controls pertaining to accounting policies were well designed, however it appeared that during the grant period these controls were not being implemented.

Recommendations

The OFA recommends that the Citizens for Affordable Housing Program diligently follow their accounting manual. The agency should maintain adequate supporting documentation for payroll and prohibit the practice of pre-signing checks.

The OFA further recommends Citizens for Affordable Housing take the following actions:

- 1. Ensure there is proper and necessary documentation prior to any payments.**
- 2. Ensure that such documentation is properly maintained and made available for review.**
- 3. Ensure that accounting policies are strictly adhered to.**
- 4. Ensure that the Board of Directors plays a more active role in the oversight of the agency.**