

AUDIT TEAM
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PLANNING DEPARTMENT
NON-MAJOR FEDERAL GRANT
COMPLIANCE CONTROLS
FEBRUARY 11, 2025

MAYOR AND CITY COUNCIL

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<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



February 11, 2025

The Mayor and City Council:

The Office of the City Auditor has completed an audit of controls over compliance with the requirements of selected non-major federal grants and City policies and procedures relating to those requirements during the year ending December 31, 2023.

Based upon the results of our audit, we believe controls over compliance with Home Investment Partnerships (HOME) grant and Youth Homelessness Demonstration Program (YHDP) grant requirements were adequate and effective, except for controls ensuring salaries paid from grant funds for grant administration are based on actual staff time worked and HOME grant down payment assistance is only awarded to low-income households.

The more significant recommendations for improving compliance with the requirements of the audited grants and related City policies and procedures, discussed in more detail in the attached report, are summarized as follows:

- Salaries paid from grant funds for grant administration should be supported by documented actual time worked by employees. An automated timekeeping system should be pursued to more efficiently comply with this requirement. See Recommendation 1.
- The accuracy of contracted HOME down payment assistance applicant income calculations should be verified to ensure low-income requirements are met. See Recommendation 2a.
- Submitted YHDP subrecipient reimbursement requests should include support that can be reviewed for expense allowability and accuracy prior to payment. See Recommendation 5.
- YHDP subrecipient monitoring should be documented and related documentation should be retained as required by federal award record retention requirements. See Recommendation 6.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to ensure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.

Handwritten signature of Matt Weller in black ink.

Matt Weller
City Auditor

Handwritten signature of Lori Rice in black ink.

Lori Rice
Assistant City Auditor

Handwritten signature of Christy Barron in black ink.

Christy Barron
Audit Manager

NON-MAJOR FEDERAL GRANT COMPLIANCE CONTROLS

AUDIT OBJECTIVE, BACKGROUND, SCOPE, AND METHODOLOGY

The objective of this audit was to determine the adequacy and effectiveness of controls over compliance with the requirements of selected non-major federal grants and City policies and procedures relating to those requirements during the year ended December 31, 2023.

City compliance with the requirements of major federal grants is audited by the City's external auditor as part of their audit of the City's Annual Comprehensive Financial Report. The external auditor identifies major federal grants based upon federal Office of Management and Budget criteria, generally resulting in audit of grants with the largest fiscal year expenditure amounts.

During the most recently completed fiscal year 2023 external audit, six federal grants totaling \$64 million in expenditures were audited major grants, while 34 non-major grants totaling \$52 million in expenditures were not audited¹. However, eight of those non-major grants totaling \$44 million in expenditures for fiscal year 2023 were major grants included in external audit coverage for fiscal years 2022 and 2021 and were eliminated from consideration for this audit.

Non-major grants were selected for audit from the remaining 26 non-major grants based on an assessment of risks using the following criteria:

- Significance of award amounts,
- Significance of amounts distributed to subrecipients,
- Total expenditures and expectation for ongoing expenditures,
- Relative complexity of grant requirements, and
- Recent monitoring by a federal or pass-through agency².

Based on the risk assessment, the following two non-major grants administered by the Planning Department were selected for audit:

Non-Major Grants Selected for Audit		Calendar Year 2023	
Grant		Awards	Expended
Home Investment Partnerships (HOME)		\$26,638,877 ³	\$3,213,643
Youth Homelessness Demonstration Program (YHDP)		3,028,026	1,231,068

Source: Grant award documents and expenditures from the City's PeopleSoft Financial System.

¹ Counts of federal grants, major federal grants, and related expenditure totals were obtained from City's Schedule of Expenditures of Federal and State Awards included in the external auditor's Single Audit Report for fiscal year ending June 30, 2023.

² A pass-through agency is an intermediary organization (usually the state) that distributes federal funds to political subdivisions within its jurisdiction.

³ The allowable period for carrying out HOME grant activities is generally eight years and sometimes nine years. This award total represents total HOME grant funds awarded since 2016 from which expenditures were made during calendar year 2023.

Both selected grants are received from the United States Department of Housing and Urban Development (HUD). The HOME grant is a formula grant⁴ to states and localities often used in partnership with local nonprofit groups to fund construction, purchase, and/or renovation of affordable housing for rent or homeownership and to provide rental or down-payment assistance to low-income individuals and families. The YHDP grant is competitively awarded and intended for use in developing and implementing a coordinated community approach to preventing and ending youth homelessness.

Procedures performed during our audit included identification and review of applicable grant compliance requirements; review of City grant administration policies and procedures; management interviews; reviews of controls over compliance with grant requirements; and grant transaction testing on a sample basis for compliance with applicable compliance requirements and City policies and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires 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.

The following section of this report includes recommendations intended to provide constructive suggestions for improving controls ensuring compliance with the requirements of the selected non-major grants and City policies and procedures relating to those requirements. Each recommendation included in this report is immediately followed by a *management response*. Management responses are attached to this report in their entirety.

RESULTS OF WORK PERFORMED

Controls over compliance with HOME and YHDP grant requirements were reasonably adequate and effective for the audit period, except for controls ensuring salaries paid from grant funds for grant administration are based on actual staff time worked and HOME grant down payment assistance is only awarded to low-income households.

Comment 1

Planning Department salaries paid from federal grant funds for grant administration are not based on actual staff time worked as required by federal regulations and City grant policies. Instead, salaries are paid from grant funds based upon estimates of staff time devoted to each grant according to job assignment to the extent of funding available from each grant for such

⁴ Formula grants are distributed according to predetermined criteria such as population size, poverty rates, or other demographic factors typically outlined in related legislation or federal regulations.

costs. This approach is used because of the amount of effort involved with manually tracking staff time and related costs by grant and lack of an automated timekeeping system.

Federal regulations require that administration costs paid with federal awards be based upon records that accurately reflect the work performed⁵. City grant policies and procedures require that time sheets accurately reflecting employee time worked on each grant be maintained.

Planning Department salaries paid from HOME and YHDP grant funds during the audit period totaled approximately \$444,000 and \$71,000, respectively. Additionally, Planning Department salaries totaling approximately \$1.6 million were paid with 23 other federal grant awards during the audit period. The risk of HUD and other federal agencies deeming these grant administration costs as unallowable and requesting repayment is increased to the extent these costs are not supported by actual staff time worked on each grant.

Recommendation 1

Planning staff working on grants should be required to document their actual time worked on each federal grant on written timesheets. Salaries paid from all grant funds should be based on recorded time worked. Additionally, an automated timekeeping system should be pursued to lessen the administrative burden of complying with this requirement.

Planning Department Response 1

Agree with modification. This has been a concern within the Department for a few years as the payroll tracking and finance systems that have been and are in place currently do not allow for fluid changes in payroll allocations for each pay cycle. The City's system also did not easily accommodate payroll distributions from multiple funding sources.

Planning has engaged with both IT and Finance-ASD on this topic for some time. In early 2023, we proposed a two-part solution.

- a. Putting all grant funded employees (or at least those who work on multiple grants) into a control account to solve payroll distributions problems. Under this solution, the initial distribution would be to the control account, and we would then perform JEs or ICVs to move the charges/actuals to the respective grants. We received authority to do this from Budget, but we needed the second critical piece to make it effective.*
- b. Each employee's actual hours worked would be documented in a digital time-keeping system/database system that would be either designed by IT or by a third party (we identified a very reasonably priced software program called ClickTime that seemed to meet our needs). Staff would enter the time they worked on each grant each pay period (i.e. in a*

⁵ 2 CFR §200.430(i)(1) requires that charges to Federal awards for salaries and wages must be based upon records that accurately reflect the work performed.

data form that looks like a timesheet similar to Kronos but with the ability to attribute time directly to the grant) into that system, and attribute their leave, which data could then be easily extracted/used by grant accounting staff as the basis for the JE and the required payroll certifications. The digital timecard into which staff would enter their time should be able to be pre-populated by accounting staff with estimates that the accounting group develops annually and periodically for budget preparation.

However, the IT proposal for 3rd party software was not accepted by IT as at the time it was determined they could build a system to accomplish what was needed. This never developed and the conversion to Oracle has since further complicated the matter as it does not have the same JE or ICV process to allow fluid movement between grant funds.

As a part of the citywide Oracle conversion project, the Planning Department requested that a grant payroll and reporting system be developed to address the concern. Unfortunately, this request was not included in the initial scope of the Oracle consultant's agreement with the City. Since timekeeping for grant compliance is not solely a concern of the Planning Department, but also affects other departments that receive grants, the Planning Department continues to request that a citywide solution for grant timekeeping be pursued by the Finance-ASD and IT Departments. A timekeeping system that only serves the Planning Department and does not automatically flow into Oracle, as well as any proposed manual timekeeping system, would be overly cumbersome to implement and would likely result in regular errors in executing payroll functions. For example, due to deficiencies in Oracle's current configuration, Planning and Finance accounting staff must manually calculate and enter over 500 payroll entries per pay period based on allocations of payroll to various grants. This tedious process necessarily results in errors each pay period. Tracking actual time using written timesheets at this juncture in the current accounting system environment would create additional complexity, making the process even more time consuming, subject to error, and difficult to manage. However, the intent is to transition to actual-time reporting as soon as our technology implementation situation allows.

By March 31, 2025, the Planning Department will reengage with IT and Finance-ASD to assist in pursuing a Citywide grant timekeeping system. The Assistant Finance Director reports that completing the basics of Oracle implementation remains Finance's top priority for the foreseeable future and has committed to re-engaging on this issue by this date. Planning estimates that implementation of a timekeeping system may take up to a year, with a completion goal of March 31, 2026.

HOME Grant Controls

Comment 2

One of three tested HOME grant down payment assistance awards was to an applicant not meeting income eligibility requirements for the program. The City contracts with two non-profit organizations to calculate applicant income based on proof provided by the applicants,

determine if applicants qualify as “low-income” or “very low-income”, and pay the assistance⁶. The contractors are reimbursed by the City for assistance provided with HOME grant funds upon sale closings. Assistance was provided for 12 property purchases during the audit period.

While the down payment assistance provided to the ineligible applicant totaled only \$14,999, the purchased home was also constructed using HOME grant funds totaling \$160,000. Because property acquisition by a low-income family is a qualifying requirement for HOME grant-funded housing construction to be an eligible affordable housing activity, HUD could deem the entire expended amount of grant funds totaling \$174,999 an unallowable cost⁷.

Planning staff reviews closing documents for property sales involving down payment assistance before closing but does not verify the accuracy of applicant income calculations. The risk of HUD requesting repayment of HOME grant funds used for down payment assistance awarded to ineligible applicants or for constructed housing no longer qualifying as affordable because of purchase by an ineligible applicant is increased if applicant income calculations are not verified.

Recommendation 2a

Planning should obtain applicant income calculations and proof of income support from the contractors for all down payment assistance awards and verify the accuracy of the calculations before the sales close. Additionally, the accuracy of the applicant income calculations for the nine down payment assistance awards not reviewed during the audit should be verified.

Planning Department Response 2a

Agree with recommendation. By March 31, 2025, the Planning Department will initiate contact with the down-payment service provider to require that Planning Department staff receive and review all applicant income calculations for down-payment assistance prior to award of the assistance to the applicant. The Department will also review the accuracy of the applicant income calculations for the nine down payment assistance awards not reviewed during the audit and report if there are additional errors.

Recommendation 2b

Planning should report the down payment assistance awarded to the ineligible applicant and the grant funds expended to construct the related purchased home to HUD and work with HUD to determine if those funds should be repaid. Ineligible expenditures identified during the review included in Recommendation 2a, if any, should be addressed in the same way.

⁶ 24 CFR §92.2 defines low-income and very low-income families as those whose annual income does not exceed 80% and 50%, respectively, of the median income for the area, as determined by HUD, with adjustments for smaller and larger families.

⁷ 24 CFR §92.205(a) includes provision of incentives to develop and support homeownership affordability through new construction as an eligible grant activity. 24 CFR §92.254(a) (3) requires that housing must be acquired by a homebuyer whose family qualifies as a low-income family to qualify as affordable housing.

Planning Department Response 2b

Agree with recommendation. The Planning Department is currently working with the down-payment service provider to mitigate the award of assistance to an ineligible applicant. By January 31, 2025, the Planning Department will notify the U.S. Department of Housing and Urban Development (HUD) of the provider's proposed mitigation activity so that a determination can be made whether funds are to be repaid.

Comment 3

Inspections ensuring continuing compliance of HOME grant assisted rental housing projects with HUD property standards were not consistently conducted as required. HUD requires these inspections to be conducted every three years and to include a certain number of rental units depending on the number of rental units included in each project⁸. Two of 23 rental housing projects tested were not inspected within the last three years as required. In addition, the required number of rental units were not inspected for three of five rental housing projects tested for compliance with those requirements specifically.

One of the uninspected rental housing projects was an oversight while the other has not been inspected as required because of an uncooperative property manager. Additionally, inspection completion monitoring did not consistently include the number of rental units required to be inspected or inspected per project.

HOME grant assisted rental housing projects may become unsuitable, unsafe, and/or unsanitary if inspections are not consistently conducted in accordance with HUD requirements.

Recommendation 3

Planning should develop comprehensive written policies and procedures for conducting and monitoring the completion of HUD-required rental housing project inspections including:

- How required and completed inspections will be recorded and monitored.
- Federal requirements for the number of rental units to be inspected for each project.
- Coordination with the Municipal Counselor's Office regarding how to address property managers who are uncooperative.

Additionally, all inspections most recently conducted should be assessed for compliance with HUD requirements related to the number of rental units inspected and additional rental unit inspections carried out if necessary.

⁸ 24 CFR §92.504(d)(1)(ii) requires ongoing periodic inspections of HOME loan-financed rental housing for compliance with HUD property standards. On-site inspections must be conducted at least once every three years during the period of affordability which is the time during which HOME loan-financed units must remain affordable to low-income households. All rental units must be inspected for projects with four or fewer units while a statistically valid sample of rental units can be inspected for projects with more than four units.

Planning Department Response 3

Agree with recommendation. By March 31, 2025, the Planning Department will develop and adopt written policies and procedures consistent with the requirements that outline how staff will execute, record and monitor inspections. The Department will also coordinate with the Municipal Counselor's Office to establish a mechanism to effectively address uncooperative property managers.

Comment 4

Timely certifications of weekly payrolls for payment of prevailing wages were not obtained from a contractor or subcontractors on a HOME loan-financed construction project. Payment of prevailing local wage rates is required by all contractors engaged in construction of HOME loan-financed projects involving 12 or more housing units⁹. As the HOME grant fund recipient, the City is required to ensure compliance with this requirement by obtaining weekly payrolls certified by contractors and subcontractors to include pay at prevailing local wage rates.

Though eventually all received, certified payrolls were not requested or received until nearly 14 months after the related work was performed. The risk of undetected or untimely detection of contractor noncompliance with requirements to pay prevailing wages is increased if payroll certifications are not obtained as the related work occurs.

Recommendation 4

Planning should develop written policies and procedures setting forth the conditions in which federal prevailing wage rate requirements are applicable and how complete and timely certified weekly payrolls will be obtained from contractors and subcontractors.

Planning Department Response 4

Agree with modification. These provisions are specified by federal regulation, and as such a specific policy to follow the regulations does not need to be developed. However, as there was non-compliance related to the project reviewed, by March 31, 2025, applicable program staff will receive Davis-Bacon refresher training to include review of the conditions in which federal prevailing wage rate requirements are applicable, and the requirements for obtaining timely and complete certified weekly payroll reports from contractors and subcontractors. New staff that will be dealing with implementing these requirements will also receive Davis-Bacon training during their first six months of employment.

⁹ 24 CFR §92.354(a)(1) requires that every contract for the construction (rehabilitation or new construction) of housing that includes 12 or more units assisted with HOME funds must contain a provision requiring the payment of not less than the wages prevailing in the locality.

YHDP Grant Subrecipient Controls

Comment 5

Expense support is not consistently submitted with YHDP grant subrecipient reimbursement requests as required by related operating agreements or reviewed prior to reimbursement.

Support was not available for seven of 11 tested reimbursement requests, and documentation was incomplete for three of the remaining four tested. Additionally, the Subrecipient Oversight Plan requires only medium or high risk subrecipients to submit support with reimbursement requests, conflicting with the subrecipient operating agreements¹⁰.

While documentation supporting subrecipient expenses is reviewed during periodic monitoring procedures, those reviews were observed to generally only include a small sample of expenses. Reimbursed subrecipient expenses accounted for over 85% of YHDP grant funds expended during the audit period. Unallowable subrecipient expenses could be reimbursed if support is not submitted by subrecipients with reimbursement requests and reviewed prior to payment.

Recommendation 5

Planning should require subrecipients to submit expense support with reimbursement requests and review the support prior to payment, reasonably verifying the allowability of the expenses in accordance with grant requirements and the accuracy of requested reimbursement amounts.

Planning Department Response 5

Agree with recommendation. For each reimbursement request, YHDP program staff has been directed to ensure expense support is submitted and reviewed for accuracy prior to processing reimbursement requests for payment, as indicated in subrecipient agreements. In the future, staff will ensure that the requirements of Subrecipient Oversight Plans and Subrecipient Agreements contain consistent and accurate language regarding requirements for submission of expense support.

Comment 6

Periodic monitoring procedures completed for one of two YHDP grant subrecipients tested during the audit period were not fully documented and retained. Completion of a monitoring checklist is required by City grant subrecipient monitoring procedures and Planning Department subrecipient monitoring procedures require documentation of monitoring activities conducted (e.g., procedures performed, items reviewed, interview notes, etc.). Additionally, retention of

¹⁰ City grant policies and procedures require that a risk assessment be performed for each subrecipient and that the assessed risk be used to develop a Subrecipient Oversight Plan to determine the nature, timing, and extent of monitoring procedures.

all records pertinent to federal awards is required for three years from submission of the final expenditure report¹¹.

Subrecipient monitoring procedures performed may not be deemed compliant with related federal requirements if evidence of the procedures performed is not fully documented and retained.

Recommendation 6

Planning should ensure subrecipient monitoring checklists and all department policy-required documentation is completed for all subrecipient monitoring activities conducted and retained in accordance with related federal award record retention requirements.

Planning Department Response 6

Agree with recommendation. By March 31, 2025, YHDP program staff will receive refresher training on the monitoring procedures and will be directed to ensure subrecipient monitoring checklists are followed and completed, and that all monitoring activities are documented and retained on file in accordance with City, departmental and HUD policies. Staff will be required to complete refresher training annually.

¹¹ 2 CFR §200.334 requires financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award to be retained for a period of three years from the date of submission of the final expenditure report.

ATTACHMENT A
MANAGEMENT RESPONSES



MEMORANDUM

The City of
OKLAHOMA CITY

TO: Matt Weller, City Auditor

THROUGH: Craig Freeman, City Manager *CF*

FROM: Geoffrey Butler, Planning Director *JB*

DATE: February 7, 2025

SUBJECT: Non-Major Federal Grant Compliance Audit

Following are the Planning Department's management responses to recommendations outlined in the recent Non-Major Federal Grant Compliance Audit with respect to timekeeping, the Youth Homelessness Demonstration Program (YHDP) and Home Investment Partnerships (HOME) programs.

1. Agree with modification. This has been a concern within the Department for a few years as the payroll tracking and finance systems that have been and are in place currently do not allow for fluid changes in payroll allocations for each pay cycle. The City's system also did not easily accommodate payroll distributions from multiple funding sources.

Planning has engaged with both IT and Finance-ASD on this topic for some time. In early 2023, we proposed a two-part solution.

- a. Putting all grant funded employees (or at least those who work on multiple grants) into a control account to solve payroll distributions problems. Under this solution, the initial distribution would be to the control account, and we would then perform JEs or ICVs to move the charges/actuals to the respective grants. We received authority to do this from Budget, but we needed the second critical piece to make it effective.
- b. Each employee's actual hours worked would be documented in a digital time-keeping system/database system that would be either designed by IT or by a third party (we identified a very reasonably priced software program called ClickTime that seemed to meet our needs). Staff would enter the time they worked on each grant each pay period (i.e. in a data form that looks like a timesheet similar to Kronos but with the ability to attribute time directly to the grant) into that system, and attribute their leave, which data could then be easily extracted/used by grant accounting staff as the basis for the JE and the required payroll certifications. The digital timecard into which staff would enter their time should be able to be pre-populated by accounting staff with estimates that the accounting group develops annually and periodically for budget preparation.

However, the IT proposal for 3rd party software was not accepted by IT as at the time it was determined they could build a system to accomplish what was needed. This never developed and the conversion to Oracle has since further complicated the matter as it does not have the same JE or ICV process to allow fluid movement between grant funds.

As a part of the citywide Oracle conversion project, the Planning Department requested that a grant payroll and reporting system be developed to address the concern. Unfortunately, this request was not included in the initial scope of the Oracle consultant's agreement with the City. Since timekeeping for grant compliance is not solely a concern of the Planning Department, but also affects other departments that receive grants, the Planning Department continues to request that a citywide solution for grant timekeeping be pursued by the Finance-ASD and IT Departments. A timekeeping system that only serves the Planning Department and does not automatically flow into Oracle, as well as any proposed manual timekeeping system, would be overly cumbersome to implement and would likely result in regular errors in executing payroll functions. For example, due to deficiencies in Oracle's current configuration, Planning and Finance accounting staff must manually calculate and enter over 500 payroll entries per pay period based on allocations of payroll to various grants. This tedious process necessarily results in errors each pay period. Tracking actual time using written timesheets at this juncture in the current accounting system environment would create additional complexity, making the process even more time consuming, subject to error, and difficult to manage. However, the intent is to transition to actual-time reporting as soon as our technology implementation situation allows.

By March 31, 2025, the Planning Department will reengage with IT and Finance-ASD to assist in pursuing a Citywide grant timekeeping system. The Assistant Finance Director reports that completing the basics of Oracle implementation remains Finance's top priority for the foreseeable future and has committed to re-engaging on this issue by this date. Planning estimates that implementation of a timekeeping system may take up to a year, with a completion goal of March 31, 2026.

2.

- a. Agree with recommendation. By March 31, 2025, the Planning Department will initiate contact with the down-payment service provider to require that Planning Department staff receive and review all applicant income calculations for down-payment assistance prior to award of the assistance to the applicant. The Department will also review the accuracy of the applicant income calculations for the nine down payment assistance awards not reviewed during the audit and report if there are additional errors.
- b. Agree with recommendation. The Planning Department is currently working with the down-payment service provider to mitigate the award of assistance to an ineligible applicant. By January 31, 2025, the Planning Department will notify the U.S. Department of Housing and Urban Development (HUD) of the provider's

proposed mitigation activity so that a determination can be made whether funds are to be repaid.

3. Agree with recommendation. By March 31, 2025, the Planning Department will develop and adopt written policies and procedures consistent with the requirements that outline how staff will execute, record and monitor inspections. The Department will also coordinate with the Municipal Counselor's Office to establish a mechanism to effectively address uncooperative property managers.
4. Agree, with modification. These provisions are specified by federal regulation, and as such a specific policy to follow the regulations does not need to be developed. However, as there was non-compliance related to the project reviewed, by March 31, 2025, applicable program staff will receive Davis-Bacon refresher training to include review of the conditions in which federal prevailing wage rate requirements are applicable, and the requirements for obtaining timely and complete certified weekly payroll reports from contractors and subcontractors. New staff that will be dealing with implementing these requirements will also receive Davis-Bacon training during their first six months of employment.
5. Agree with recommendation. For each reimbursement request, YHDP program staff has been directed to ensure expense support is submitted and reviewed for accuracy prior to processing reimbursement requests for payment, as indicated in subrecipient agreements. In the future, staff will ensure that the requirements of Subrecipient Oversight Plans and Subrecipient Agreements contain consistent and accurate language regarding requirements for submission of expense support.
6. Agree with recommendation. By March 31, 2025, YHDP program staff will receive refresher training on the monitoring procedures and will be directed to ensure subrecipient monitoring checklists are followed and completed, and that all monitoring activities are documented and retained on file in accordance with City, departmental and HUD policies. Staff will be required to complete refresher training annually.

Thank you for your professional review of these programs.