U.S. Department of Housing and Urban Development
Office of Inspector General
Pacific/Hawaii District
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Audit Memorandum
2001-SF-1803

March 23, 2001

MEMORANDUM FOR: William Barth, Director
Office of Community Planning and Development, 9DD

"SIGNED"

FROM: Mimi Y. Lee
District Inspector General for Audit, 9AGA

SUBJECT: Los Angeles Homeless Services Authority
El Monte Youth Development Center
Supportive Housing Program Grant (CA16B97-0021)
Los Angeles, California

As part of a nationwide review of HUD's Continuum of Care Program, we audited the subject grant awarded to the Los Angeles Homeless Services Authority (LAHSA) for the 1997 Supportive Housing Program (SHP) operated by the El Monte Youth Development Center (El Monte). El Monte carried out all grant activities as a sub-grantee of LAHSA. The purpose of our audit was to determine whether LAHSA and El Monte operated the Continuum of Care grant in accordance with the approved application as well as HUD and other federal requirements.

SUMMARY

We concluded that El Monte did not implement its activities consistent with its application. Specifically, El Monte admitted ineligible participants and participants whose eligibility was not adequately documented, did not accomplish program goals or maintain evidence of measurable results, did not maintain financial records that support specific grant expenditures, did not follow Federal procurement procedures in awarding contracts for services, charged ineligible costs to the grant, and failed to remit interest income earned on federal funds to the US Treasury Department as required.

These problems occurred because El Monte hired unqualified staff and because management did not understand or disregarded the applicable Federal or contractual requirements. As a result, El Monte

has spent at least $656,845 ($80,639 + $576,206) of HUD funds on costs that did not benefit or may not have benefited the intended program participants.

LAHSA did not actually incur any of the costs in question. Nevertheless, according to its grant agreement with HUD, LAHSA agreed "to comply with all requirements of its grant agreements and to accept responsibility for such compliance by any entities to which it makes grant funds available." The grant agreement also required LAHSA to provide sub-grantee monitoring, but LAHSA had not done any onsite monitoring of any sub-grantees until October 2000 although many of the sub-grantees had been operating and receiving funding for years. Further, LAHSA did not conduct formal monitoring of the sub-grantees prior to awarding renewal grants. Our recommendations for corrective actions and for reimbursement to HUD are therefore directed to LAHSA.

Description of Expenditure	***Ineligible***	***Unsupported***
Questionable Program Participants	$70,236	$93,648
Not Supported as Allocable to TLC		482,558
Unallowable Interest Earned	1,005	
Miscellaneous Ineligible Costs	2,507	
Excessive Administrative Costs	6,891	
Totals	$80,639	$576,206

BACKGROUND

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program (SHP). The program is designed to promote the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible. Eligible activities include:

- Transitional housing,
- Permanent housing for homeless persons with disabilities,
- Innovative housing that meets the immediate and long-term needs of homeless persons, and
- Supportive services for homeless persons not provided in conjunction with supportive housing.

LAHSA is a California public nonprofit corporation and the primary administrative agency for distributing government funding for Supportive Housing Programs in Los Angeles County. El Monte is a private nonprofit corporation.

The focus of our audit was LAHSA's 1997 $1,340,518 Supportive Housing Grant (CA16B97-0021) for El Monte to provide transitional housing, supportive services, and case management. El Monte referred to this program as their Transitional Living Care (TLC) program. However, due to El Monte's failure to properly segregate and account for different funding sources, in some instances, our review overlapped other grants as summarized below:

Funding Source	***Program Name***	***Type of Services***	***Total Awarded***
HUD SHP Grant (CA16B97-0021)	Transitional Living Care (TLC)	Transitional housing, supportive services, and case management	$1,340,518
HUD SHP Grant (CA16B800-022)	Pathways	Housing for Domestic Violence victims	$746,473
HUD SHP Grant (CA16B97-0062)	Multi Services Center	Intake Center for individuals with needs ranging from housing to job placement	$950,786
HUD SHP Grant (CA16B800-030)	Outreach Team	Substance abuse program and homeless assistance	$601,066
	TOTALS		$3,638,843

Requirements of the Grant

The subject grant agreement (CA16B97-0021) incorporated the grant application, which specified that El Monte would provide transitional housing and supportive services to homeless adolescents and young adults. Under the grant agreement, El Monte would perform most of the grantee duties while LAHSA would act as a pass-through entity performing administrative duties. LAHSA and El Monte agreed to meet the following performance measures:

- 200 persons will enter the program during the first three grant years;
- 100% of the residents will develop a comprehensive case management plan;
- At the end of three months, 90% of the residents will have a source of income from employment or public assistance;
- At the end of four months, 90% of the residents will have successfully initiated a money management plan and two months later, 90% of them will have move-in costs;
- At the end of six months, 80% of the residents will be employed with a job, 90% of them will maintain their jobs six months later;
- At the end of three months, 100% of the residents will participate in household chores;
- At the end of three months, 100% of the residents will have completed a mental health care assessment, 50% of them will voluntarily comply with treatment one month later;
- At the end of three months, 100% of the residents will have completed a medical health care assessment, 50% of them will voluntarily comply with treatment one month later;
- At the end of six months, 40% of the residents will have received substance abuse counseling, 90% of them will maintain their sobriety three months later;
- At the end of six months, 60% of the residents will have received AIDS testing or counseling;
- At the end of six months, 50% of the residents will have received crisis intervention by the peer counselor;

- 60% of the residents will successfully transition to permanent housing and 80% of them will maintain their housing a year later; and
- 20% of the residents will successfully transition into service-enriched permanent housing and 80% of them will maintain their housing a year later.

OBJECTIVE, SCOPE AND METHODOLOGY

The overall objective of our audit was to determine whether LAHSA and El Monte operated the Continuum of Care grant in accordance with the approved application as well as HUD and other federal requirements. To accomplish our objectives, we interviewed HUD, LAHSA and El Monte officials; visited the transitional housing location; reviewed LAHSA's policies and procedures manual; and reviewed the grant application, grant agreement, technical submission and El Monte's annual progress report, financial records, and participant files. We also reviewed applicable criteria including Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations."

The audit generally covered the period from January 1, 1999 through October 31, 2000. We conducted the audit in accordance with generally accepted government auditing standards.

REVIEW RESULTS

El Monte admitted ineligible participants and participants whose eligibility was not adequately documented into the transitional housing program.

El Monte did not maintain adequate documentation regarding the prior living situations of the program participants. A total of 51 participants entered the program during the first two grant years. We reviewed 100 percent of the participant files and determined 21 of 51 participants were ineligible or their eligibility was not adequately documented. Although El Monte's financial records do not show the actual costs per participant, we estimated El Monte spent $7,804[1] per participant for supportive services during the period.

Based on our calculation, El Monte spent $70,236 ($15,608 + $54,628) in supportive services for the ineligible participants and $93,648 for participants who may not have been eligible as identified below:

- 2 of 21 participants exceeded the age limit established in the grant application and were therefore ineligible for the TLC Program ($15,608). As stated in their application, the objective of the TLC Program is to provide transitional housing and supportive services to youth ages 16 to 24 who have been emancipated from foster care and group homes and are not quite

[1] SHP supportive services amount awarded for 3-year grant period ($651,297) divided by 36 months ($18,092) multiplied by 22 months reviewed ($398,024) and divided by 51 program participants equals the supportive service cost per participant ($7,804).

ready to live on their own. The two participants in question were aged 35 and 52 at the time of their placement in the TLC Program.

- 7 of 21 participants lived with family and friends prior to placement and stated they left home to become more independent. These individuals do not qualify as homeless and are ineligible for the TLC Program ($54,628). The SHP Desk Guide specifically classifies people who are living with relatives or friends as ineligible.

- 12 of 21 participants submitted incomplete applications to the TLC staff so we could not determine their eligibility ($93,648). The SHP Desk Guide states, "grantees must maintain adequate documentation to demonstrate the eligibility of persons served by SHP funds." Homelessness eligibility documentation for these 12 participants was so incomplete that the prior living situation was not even identified.

HUD's Supportive Housing Program (SHP) Desk Guide, which was released in April 2000, requires the grantees to maintain adequate written documentation to demonstrate the eligibility of the participants. LAHSA and all of its grant recipients have received HUD training on SHP requirements including participant eligibility and documentation of eligibility. Prior to the release of the Desk Guide, HUD training focused on homeless eligibility. Subsequent HUD training has covered both participant eligibility and documentation of homelessness.

In our opinion, the SHP requirements were not followed because El Monte hired unqualified staff to oversee and operate the TLC Program and/or because the staff was unaware of or disregarded the applicable requirements. As a result, El Monte admitted ineligible participants into the program thereby limiting the funding which would have been available for truly qualified applicants.

The grant agreement required LAHSA to provide onsite monitoring of the TLC Program. Since LAHSA did not do any onsite monitoring of the TLC Program, the participant eligibility problem was not identified and LAHSA could not be assured that the intended population was served.

<u>El Monte did not accomplish program goals and/or could not support reported accomplishments.</u>

HUD requires grantees to submit annual progress reports (APRs) on the goals listed in their applications. HUD uses this information to evaluate the successfulness of the programs. Although the required report submitted by El Monte to LAHSA and HUD claimed accomplishment of all program goals, El Monte did not maintain support for the reported accomplishments.

El Monte did not maintain participant files or other summary records in a manner, which facilitated reconfirmation of its reports. They did not keep lists of goals met by the participants and staff did not track the participants' progress anywhere besides the participant files. To report El Monte's accomplishments to LAHSA, the Program Manager manually went through the participant files and counted the number of participants meeting program goals. However, no verifiable record of this tabulation was maintained.

One program goal was to provide each participant with an individual plan that outlined what the participant hoped to accomplish. Half of the files we reviewed contained documentation identifying the plans but none of the files reviewed documented the actual accomplishment of the participants' plans.

In addition, El Monte did not provide the level of services it proposed in its application. The application stated transitional housing services for 200 homeless youth would be provided by the end of the grant period. To accomplish this, El Monte would have to serve approximately 66 participants per grant year. El Monte's progress report indicated 33 participants were served during year 1 and their program files indicated only 16 participants were served through October of the second grant year. One reason for this shortfall was El Monte's failure to keep the TLC facility filled to maximum capacity as stated in its application. The Program Manager said this was because she was very selective and carefully considered the background and personality of the applicants before accepting them into the program.

Also, El Monte did not track participants after they left the Program. El Monte did not formally follow-up on participants once they left the program as required by two of its goals. One goal required that 60% of the participants would transition into permanent housing and 80% of them would maintain their housing a year later. El Monte reported the accomplishment of this goal although no documentation existed of participant contacts after they left the program. The other goal similarly required 20% of the participants to successfully transition into service-enriched permanent housing with 80% of them maintaining their housing a year later. El Monte staff acknowledged they did not meet this goal. The Case Manager said it was too difficult to get information from participants once they left the program.

The Program was not implemented as stated in El Monte's Technical Submission and application, at least in part, because unqualified program staff were hired. The Technical Submission specifically states the qualifications of their program staff would be as follows:

- Program Manager and Case Managers should possess a Master's Degree in Social Work or a related field or a combination of education and work experience;

- Job Development Specialist, Housing Placement Specialist, and Youth Peer Counselor should possess a Bachelors Degree in Social Work or a related field or a combination of education and experience; and

- Weekend Program Staff should possess an Associates Degree in Social Work or a related field or a combination of education and experience.

The Program Manager, Case Manager, Job Development Specialist and the Weekend Program Staff all lacked the qualifications required to implement the specialized supportive services. El Monte's management hired people for these positions who did not have the required specialized training and experience.

The Program's success depends upon the individual participants meeting the goals set during the initial assessment and on El Monte meeting the goals stated in the grant application. El Monte made inaccurate and unsupported claims of goal accomplishments in their APR and LAHSA relied on these representations when they awarded El Monte a renewal grant of $902,991.

El Monte's financial records did not support grant expenditures and some expenditures did not comply with Federal procurement regulations.

The TLC Program financial records did not accurately support or segregate grant expenditures. Although El Monte received HUD funding from four different SHP grants to administer four different programs, all funding for these programs was maintained in one general checking account without proper accounting for individual SHP grant expenditures as required. Therefore, at the time of our audit, we could not determine the actual TLC Program expenditures.

Although financial statements prepared by El Monte's Independent Public Accountant (IPA) show total expenses of $1,282,143 for the TLC Program through October 31, 2000, we were only able to verify $799,585 of these expenses as applicable to the TLC Program. Based on our review of the IPA's financial statements and 100 percent of the related supporting documentation, we determined that expenses totaling $482,558 ($1,282,143 - $799,585) were not supported by documentation justifying their eligibility or allocability to the TLC Program.

Program Expenditures as of October 2000	***Supported Expenses***	***Unsupported Expenses***
Acquisition & Rehabilitation Costs	$400,000	
Operating Costs	52,832	
Costs for Supportive Services	335,689	
TLC Program Van Lease (22 months)	11,064	
Not Supported as Allocable to TLC		482,558
Total Program Expenditures	$799,585	$482,558

HUD's SHP Desk Guide states "the lead agency has the contractual responsibility for ensuring that the project described in the application and technical submission is successfully carried out. A lead agency's responsibility encompasses oversight for every aspect of the project, including ensuring funds expended are for eligible activities." The SHP Desk Guide also requires all grantees and/or their recipients to provide complete, up-to-date project records and financial documentation to demonstrate eligibility of project expenses. El Monte's management did not follow the applicable requirements.

In addition, El Monte did not comply with contractual obligations and Federal regulations when obtaining some services for the TLC Program. The Executive Director was unaware of the guidelines identified in the 1997 SHP Contract with LAHSA and Title 24 Code of Federal Regulations (CFR)

Section 85.36 for solicitation of bids and procurement of required services, respectively. The Executive Director stated she used contractors recommended by the City of El Monte to perform services for the TLC Program rather than advertising the job, soliciting bids, and selecting the lowest bidder as required. As a result, contractors with ties to the City were given preferential treatment. In addition, LAHSA and HUD could not be assured that the fees for contracted services were fair and equitable.

El Monte charged ineligible costs to the grant and failed to remit interest income.

El Monte charged the TLC Program a total of $2,507 in proscribed expenses. OMB Circular A-122 specifically prohibits grantees from using grant funds to pay for memberships, subscriptions, professional activity costs, fines and penalties and alcoholic beverages. However, in reviewing the program expense checks we found unallowable costs to the grant for the following purposes:

- Fines and penalties assessed on delinquent property taxes to the County of Los Angeles for $2,241;
- Membership dues to the Soroptimist International Women's Charitable Organization for two employees for $150 ($75 each); and
- Alcoholic beverages for a Sweetheart's Program sponsored by El Monte for $116.

In addition, El Monte has charged excessive administrative costs totaling $6,891 ($70,725 - $63,834) to the TLC Program. El Monte's grant of $1,340,518 for the TLC Program was to be allocated as follows according to the Grant Agreement:

Description	***Amount***
Acquisitions	$ 400,000
Supportive Services	651,297
Operating Costs	225,387
Administrative	63,834
Total	$1,340,518

The $63,834 grant provision for administrative costs is the maximum allowed by regulation (24 CFR 583.135) based on five percent of the total three-year grant. We found El Monte had already recorded administrative costs of $70,725[2] as of October 31, 2000 with a full year of the grant remaining.

Further, El Monte made regular monthly draws of the grant, which were deposited into an interest-bearing account and transferred the funds into the general checking account when needed. El Monte's records show they earned a total of $1,105 in interest on HUD SHP funds for the TLC Program.

[2] Represents recorded administrative costs although only $44,323 of El Monte's draws had been classified as administrative expenses per LOCCS.

Regulation 24 CFR 85.21(i) states, "grantees and sub-grantees shall promptly, but at least quarterly remit interest earned on advances to the Federal agency. The grantee or sub-grantee may keep interest amounts up to $100 per year for administrative expenses." There is no evidence of El Monte returning any of the interest earned to HUD.

AUDITEE COMMENTS AND OIG EVALUATION

Advance copies of the audit report were provided to LAHSA and El Monte for their review and comment and our proposed recommendations were discussed with officials of both agencies at an exit conference on March 20, 2001. LAHSA's March 1, 2001 written response pointed out some possible technical or typographical errors in the draft but took no exception to the actual issues we reported. The March 5, 2001 written response from El Monte also took no exception to the information in the audit report. At the exit conference, LAHSA and El Monte officials reviewed and accepted the proposed recommendations in a very positive manner and indicated their intentions to work together to resolve all of the reported problems.

RECOMMENDATIONS

We recommend HUD require LAHSA to:

1A. Conduct programmatic and financial monitoring of all sub-grantees and document follow-up actions resulting from the site visits.

1B. Ensure El Monte obtains and verifies the necessary information to determine participant eligibility.

1C. Assist El Monte in developing and implementing necessary procedures and systems to collect relevant data and accurately report on its performance.

1D. Perform in-depth reviews of all grants awarded to El Monte on a grant-by-grant basis to ensure supporting documentation is maintained and all costs are eligible and documented.

1E. Require El Monte to revise their accounting systems to properly account for individual grant expenses on a grant-by-grant basis prior to receiving additional funding.

1F. Reimburse HUD for the $80,639 of ineligible costs incurred by El Monte.

1G. Require El Monte to provide documentation supporting the eligibility and allocability of $576,206 in unsupported costs, and reclassify or reimburse HUD for any costs, which cannot be documented as eligible costs specifically applicable to the TLC Program grant.

* * * * *

Within 60 days, please give us a status report on the recommendations stating (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives related to this review.

If you have any questions concerning this report, please call Ruben Velasco, Assistant District Inspector General for Audit, at (213) 894-8016.

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