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September 5, 2000 **00-FW-251-1805**

MEMORANDUM FOR: Katie Worsham
Director
Office of Community Planning and Development, 6AD

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Houston Regional HIV/AIDS Resource Group, Inc.
Houston, Texas
HOPWA 94 and SHP-95 Grants
Improper Use of Grant Funds

During our audit of the Houston Regional HIV/AIDS Resource Group, Inc.'s (Resource Group) 1996 Supportive Housing Program Grant, we received a complaint that Trinity Life Center (Trinity Life), a subgrantee of the Resource Group, inappropriately used 1994 Housing Opportunities for People With Aids (HOPWA) and 1995 Supportive Housing Program (SHP) grant funds to pay unauthorized salaries. Due to Trinity Life being a subgrantee of the Resource Group, we direct our findings at the Resource Group. Our audit of the Resource Group's HOPWA and SHP funds covered salaries paid from May 1, 1998, through February 15, 1999.[1]

To accomplish our objectives, we interviewed the Resource Group management, Trinity Life management, and Trinity Life's former staff. We analyzed the payroll records of Trinity Life. Also, we reviewed the HOPWA and SHP grant agreements and other applicable criteria including OMB Circular A-122, "Cost Principles for Non-Profit Organizations." The scope of our review did not include whether the Resource Group or Trinity Life complied with other requirements of the grant agreements.

Our review disclosed that the Resource Group reimbursed Trinity Life for $34,150 in ineligible salary payments. The $34,150 included:

[1] The initial audit period covered salaries paid from the HOPWA 94 and SHP-95 grants from July 16 through November 15, 1998. For the employees involved, we extended our audit scope as needed.

Employees that worked on other programs	$29,957
Improper advances of employee raises	$3,906
Excess reimbursement over actual salary	$287

The Trinity Life staff responsible for billing the Resource Group did not allocate the salaries based upon the employees' time sheets. Further, it appears that Trinity Life wanted to expend grant funds before grant termination. The grant agreements required the Resource Group to charge the grant for the actual activity of the employees. The Resource Group mistakenly relied upon Trinity Life's allocations and its monitoring of Trinity Life did not detect the incorrect billings. As a result, Resource Group charged the grant for ineligible expenditures.

Prior to our audit, the Resource Group's procedures noted problems with Trinity Life and terminated its grants with Trinity Life. We noted during our audit that the Resource Group monitored and provided technical assistance to its subgrantees. Although Trinity Life caused the conditions noted in this memorandum, HUD has a grant agreement with the Resource Group. Therefore, we recommend that your office seek reimbursement from the Resource Group for these ineligible expenditures.

On July 31, 2000, we sent the Resource Group's Executive Director a draft of this memorandum. The Executive Director responded to the draft on August 4, 2000. We summarized their response and amended the draft as needed.

Within 60 days please give us, for each recommendation made in this audit memorandum, a status report on: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directive issued because of this review.

If you have any questions, please call William Nixon, Assistant District Inspector General for Audit, at (817) 978-9309.

Background.

HUD designed the HOPWA Program to promote the development of supportive housing and services for low-income persons with HIV/AIDS and their families, particularly those who are homeless or at great risk of becoming homeless. Eligible activities include emergency shelter, single-room occupancy, shared or group housing, and housing combined with supportive services.

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program. The Program encourages the use of innovative approaches to assist homeless persons and provides supportive housing to enable them to live as independently as possible. Eligible activities include housing and supportive services.

The Resource Group is a Texas nonprofit corporation. It was the primary administrative agency for distributing government funding for HIV/AIDS in the Houston area. The Resource Group subgrants with Trinity Life to accomplish tasks under the grant.

In September 1994, HUD awarded the Resource Group $1 million in HOPWA funds. The grant agreement incorporated the Resource Group's application. The application proposed to provide long term housing, supportive services, and behavior modification support for at least 60 homeless HIV/AIDS youths over a 3-year period. HUD extended the grant through February 28, 1999.

In December 1995, HUD awarded the Resource Group $669,551 in SHP funds to provide transitional housing and supportive services to homeless adolescents at risk of acquiring HIV. The Resource Group signed the grant agreement on December 27, 1995. The grant period ended on December 31, 1998.

The grant agreements required the Resource Group to adhere to Office of Management and Budget Circular A-122 (Circular A-122). Circular A-122 establishes principles for determining costs of grants with nonprofit organizations. Circular A-122 required the Resource Group, or its subgrantees, to keep activity reports for employees paid with grant funds. The reports must disclose total activities related to each employee's salary. Further, it required someone with "first hand knowledge" of the activities, i.e., the employee or a responsible supervisor, to sign the reports. Circular A-122 states the activity reports: "…must reflect an after-the-fact determination of the actual activity of each employee." It also required the Resource Group, or its project sponsors, to charge grants only for documented payrolls.

Circular A-122 also required the Resource Group to limit any: "…change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of Federal awards to other activities of the organization…"

The Resource Group Reimbursed Trinity Life for Ineligible Payroll Costs.

The Resource Group used grant funds to reimburse Trinity Life $34,150[2] for ineligible salaries under its 1994 HOPWA and 1995 SHP grants. The ineligible salary payments include $29,957 for four employees who worked on unrelated programs and $3,906 in raises given in advance to two employees. Also, the Resource Group incorrectly reimbursed Trinity Life $287 more than the claimed salary.

Trinity Life Obtained Reimbursement of $29,957 for Employees Who Worked on Other Programs.

The Resource Group used $17,102 in HOPWA 94 and $12,855 in SHP 95 grant funds to reimburse Trinity Life for four employees' salaries for time they spent working on unrelated programs. The employees involved and amounts included:

Employee Title / Dates Charged to Grant	HOPWA 94	SHP -95
Street Wise Case Manager **May 1, 1998 through May 15, 1998** **July 17, 1998 through February 15, 1999**	$ 8,553	$ 6,541
Star Program Clinical Director **August 16, 1998 through October 15, 1998**	4,668	6,314
HOME Project Case Manager **January 14, 1999 through February 15, 1999**	2,444	
Arbor House and Street Wise Midtown Director **October 1, 1998 through October 15, 1998**	1,437	
Totals	$17,102	$12,855

Trinity Life's corporate staff, which had no first hand knowledge of the actual employees' activities, erroneously allocated the employees' time on their time cards prior to submitting the time sheets to the Resource Group for reimbursement. Staff made the allocations on the time sheets after the employees and their immediate supervisors signed them. Trinity Life could not provide documentation, as required, to support these allocations. Further, the allocations contradicted employee annotations on the time sheets and employee statements when interviewed. Also, by the employee's title it appears that Trinity Life inappropriately allocated these employees to the grants.

For instance, Ryan White[3] grant funds paid for Trinity Life's Street Wise program, a day program for homeless persons. The HOPWA and SHP grants did not include Street Wise. According to the Street Wise case manager, he serviced only Street Wise clients. Yet, the Resource Group reimbursed Trinity Life $8,553 and $6,541 for his salary from the HOPWA 94 and SHP 95 grants, respectively.

[2] This amount includes fringe benefits estimated at 15%.

[3] The Department of Health and Human Services administers Ryan White grants.

In another instance, the Texas Department of Human Services funded the STAR Program, not HUD. Therefore, the Resource Group should not have reimbursed Trinity Life for STAR's Clinical Director's salary from HUD grants. Trinity Life claimed that the Clinical Director provided clinical support to "everyone." Trinity Life could not support (for example, sign-in sheets) its assertion that this employee served HOPWA and SHP clients.[4]

For the HOME Project Case Manager, Trinity Life moved this employee to the position of Executive Administrative Assistant on January 14, 1999. Yet, it continued to obtain reimbursement for her salary under HOPWA 94 grant for two pay periods. Trinity Life provided no documentation to support that the employee worked on the program during these pay periods.

During the desk monitoring of Trinity Life's monthly expense reports, the Resource Group noted problems with Trinity Life's administration of the grants. As a result of an October 1, 1998 site visit, the Resource Group stated Trinity Life's time sheets did not allocate employee's time amongst the grants. Trinity Life's Finance Director assured the Resource Group that it would correct this in the future. However, it appears Trinity Life allocated the time sheets based upon how it wanted the Resource Group to reimburse it and not whether the employees worked on grant activities or benefited the program.

During an April 1997 financial site visit, the Resource Group discovered that Trinity Life did not have an effective accounting system for separating different grant activities. Throughout the period that the Resource Group paid Trinity Life from grant funds, the general ledger did not agree with the time sheets submitted to the Resource Group. To correct the problems, Trinity Life assured the Resource Group that it would install a new accounting system. The new system would report the grant expenses in accordance with HUD requirements. While waiting for Trinity Life to correct its accounting system, the Resource Group mistakenly relied upon Trinity Life's employee allocation. The Resource Group did not detect Trinity Life's inappropriate allocations during its reviews.

Trinity Life Overcharged Its HOPWA 94 Grant $3,906 for Advance Raises.

The Resource Group reimbursed Trinity Life $3,906 in HOPWA 94 grant funds for raises covering a period after the grant expiration. The ineligible payments included $1,318 for the Midtown Director of Arbor House and Street Wise (Midtown Director) and $2,588 for the HOME Project Case Manager. Trinity Life paid the employees their total annual salary raises over a 2 -3 month period rather than prorating the raise over the year. The raise should have covered the period August 1998 through July 1999.[5] However, the HOPWA 94 grant expired on February 28, 1999. Therefore, Trinity Life overcharged its HOPWA 94 grant for annual salary increases relating to the period March

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[4] We will be issuing a memorandum on our audit of Supportive Housing Program Grant #TX21B960617.
[5] For one employee, the annual raise should have covered July 16, 1998, through July 15, 1999.

1999 through July 1999[6]. It appears that Trinity Life did this to expend grant funds before grant expiration rather than to enhance the grant activities.

Resource Group Inadvertently Overpaid $287 in Salary Costs.

Additionally, the Resource Group reimbursed Trinity Life $287 more than one employee's actual paycheck. The Resource Group should only reimburse actual costs.

Trinity Life Maintained Poor Payroll And Personnel Files.

Trinity Life needed to maintain better files to support payroll costs. In two instances, the amount that Trinity Life paid employees differed from the amount listed in the employee personnel file. In some cases, the personnel file stated the employee worked on one grant while the allocations from payroll stated the employee worked on other grants. Trinity Life could not provide reasonable explanations for these discrepancies. Furthermore, the Resource Group reported in November 1998 that Trinity Life's personnel files were in "complete disarray." In addition to other reasons cited, the poor maintenance and inconsistencies of files and reports caused many of the ineligible costs cited in this report. As a result of the Resource Group terminating its grant with Trinity Life, we have not made a recommendation to ensure the accuracy and consistency of payroll and personnel information.

Resource Group's Response and OIG Evaluation.

The Executive Director for the Resource Group maintained that Trinity Life and not the Resource Group violated the grant agreement. The Executive Director believed that the memorandum unfairly punishes the Resource Group even though the Resource Group monitored Trinity Life and terminated its relationship with Trinity Life when it discovered problems. Further, the Executive Director did not believe HUD should hold the Resource Group accountable, especially since it obtained supporting documentation from Trinity Life and relied on that documentation when submitting reimbursement requests to HUD.

We revised our memorandum to better differentiate between the Resource Group and Trinity Life. We agree that the Resource Group took appropriate action when terminating its funding to Trinity Life. However, the Resource Group accepted responsibility for compliance with all grant requirements when it signed the grant agreement. Specifically, the grant agreement states: "The Recipient agrees to comply with all requirements of this Grant Agreement and to accept responsibility for such compliance by any entities to which it makes grant funds available." As a result, it was accountable for Trinity Life's actions.

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[6] For the HOME Project Case Manager, this period begins in January 1999 when Trinity Life transferred her to corporate staff.

Recommendations:

We recommend that HUD require the Resource Group to:

1A. Reimburse HUD for the ineligible $21,295 expended under its 1994 HOPWA grant.

1B. Reimburse HUD for the ineligible $12,855 expended under its 1995 SHP grant.

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