



Issue Date	December 12, 2006
Audit Report Number	2007-LA-1003

TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA  
SUBJECT: The City of Long Beach, Long Beach, California, Did Not Administer Its Continuum of Care Supportive Housing Program in Compliance with HUD Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the City of Long Beach (City) in response to a recommendation from the Los Angeles Office of Community Planning and Development, which was prompted by concerns about inadequate operating procedures identified during on-site monitoring. In addition, we and the Los Angeles Office of Community Planning and Development received complaints from project sponsors, alleging the City failed to make grant reimbursements in a timely manner.

The City was awarded more than \$24 million in U.S. Department of Housing and Urban Development (HUD) Supportive Housing Program grant funds that it passed through to its nonprofit project sponsors to administer the program. Our audit objectives were to determine whether the City administered its Continuum of Care Supportive Housing Program in compliance with HUD requirements and to determine whether the complainants' allegations had merit. More specifically, our objectives were to determine whether the City (1) monitored its project sponsors adequately to ensure compliance with HUD regulations, (2) closed out expired grants in compliance with HUD regulations, (3) provided the proper amount of administrative fees to its project sponsors, and (4) made timely reimbursements to its project sponsors.

## What We Found

The City did not administer its Continuum of Care Supportive Housing Program in compliance with HUD requirements and/or its own procedures. It failed to (1) monitor its project sponsors in accordance with HUD requirements or its own procedures, which resulted in project sponsors being unable to support \$315,320 in required cash match; (2) close out \$636,916 in expired grants in accordance with HUD requirements or its own procedures; (3) provide at least 50 percent of the administrative fees to the project sponsors as Congress intended; and (4) make timely reimbursement payments to its project sponsors in accordance with its own procedures. We attribute these deficiencies to the City's not placing sufficient emphasis on ensuring that it and its project sponsors were knowledgeable of and implemented pertinent HUD requirements regarding its administration of its program. As a result, the City failed to ensure that HUD funds were spent in the most effective and efficient manner to maximize its program, unnecessarily overburdened project sponsors with paying for operations from nonfederal funding, and put HUD funds at risk of being misspent. Additionally, the City unnecessarily delayed nearly \$2 million in expired grant funds from being deobligated and put to better use.

## What We Recommend

We recommend that HUD require the City to comply with HUD's and its own policies and procedures regarding on-site monitoring of its project sponsors; provide support for \$315,320 in funds used as cash match or repay HUD from nonfederal funds for more than \$1.1 million in expended grant funds; immediately close out \$636,916 in expired grants so these funds can be put to better use; and reevaluate its payment process, establish and implement procedures to streamline invoice reviews, and ultimately reduce the time it takes to reimburse its project sponsors.

## Auditee's Response

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit. We provided the City the draft report on November 2, 2006, and held an exit conference with officials on November 9, 2006. Based on our discussion

with the City at the exit conference, we made revisions to the report and provided a revised draft report to the City on November 21, 2006. The City provided written comments on November 30, 2006. The City disagreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Supportive Housing Program is authorized under Title IV of the McKinney-Vento Homeless Assistance Act (*United States Code* 11381-11389). 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 for 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 intermediate and long-term needs of homeless persons, and supportive services for homeless persons not provided in conjunction with supportive housing.

The City of Long Beach (City) Department of Health and Human Services is a local government agency that addresses the public health and human service needs in the city of Long Beach. This department is structured around five bureaus (Public Health, Preventive Health, Environmental Health, Human and Social Services, and Support Services) and two divisions (Physician Services and Animal Control). The Bureau of Human and Social Services is responsible for administering the Continuum of Care Supportive Housing Program.

According to the U.S. Department of Housing and Urban Development's (HUD) Line of Credit Control System, since June 2001, the City has been awarded 84 grants valued at more than \$24 million for the Supportive Housing Program. The majority of these grants were subcontracted out to community nonprofit agencies called project sponsors.

We reviewed 11 of the 84 grants administered by the City with project start dates between January 1, 2001, and December 31, 2005.

<b>Grant number</b>	<b>Grant term</b>	<b>Amount awarded</b>
CA16B006004	November 01, 2001 – October 31, 2005	\$140,995
CA16B006007	June 01, 2002 – May 31, 2007	\$341,593
CA16B006009	February 01, 2002 – May 31, 2006	\$61,300
CA16B206003	March 01, 2003 – May 31, 2006	\$126,000
CA16B206004	September 01, 2003 – August 31, 2006	\$161,070
CA16B206005	September 01, 2003 – August 31, 2006	\$668,169
CA16B206006	September 01, 2003 – August 31, 2006	\$237,582
CA16B206007	August 01, 2004 – July 31, 2007	\$168,684
CA16B306014	June 01, 2005 – May 31, 2007	\$113,685
CA16B906003	January 01, 2002 – December 31, 2005	\$307,088
CA16B906010	February 01, 2002 – January 31, 2007	\$122,574
<b>Totals</b>		<b>\$2,448,740</b>

Our audit objective was to determine whether the City administered its Continuum of Care Supportive Housing Program in accordance with HUD requirements and whether the complainants' allegations had merit. More specifically, our audit objectives were to determine

whether the City (1) monitored its project sponsors adequately to ensure compliance with HUD regulations, (2) closed out expired grants in compliance with HUD regulations, (3) provided the proper amount of administrative fees to its project sponsors, and (4) made timely reimbursements to its project sponsors.

## RESULTS OF AUDIT

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### Finding 1: The City Did Not Administer Its Continuum of Care Supportive Housing Program in Compliance with HUD Requirements

The City did not administer its Continuum of Care Supportive Housing Program in compliance with HUD requirements and/or its own policies and procedures. It failed to

- Monitor its project sponsors in accordance with HUD requirements or its own policies and procedures,
- Close out expired grants in accordance with HUD requirements or its own policies and procedures,
- Provide at least 50 percent of the administrative fees to its project sponsors in accordance with HUD requirements and Congress' intent, and
- Make timely reimbursements to its project sponsors in accordance with its policies and procedures.

We attribute these deficiencies to the City's not placing sufficient emphasis on ensuring that it and its project sponsors had knowledge of and implemented pertinent HUD requirements regarding the administration of its Continuum of Care Supportive Housing Program. As a result, the City failed to ensure that HUD funds were spent in the most effective and efficient manner to maximize its program, unnecessarily overburdened project sponsors with paying for operations from nonfederal funding, and put HUD funds at risk of being misspent. Additionally, the City unnecessarily delayed nearly \$2 million in expired grant funds from being deobligated so HUD could put the funds to better use.

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#### **The City Did Not Monitor Its Project Sponsors as Required**

Office of Management and Budget Circular A-133, subpart D (see appendix C), requires pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes and to advise subrecipients of those requirements. Additionally, 24, CFR [*Code of Federal Regulations*] Part 85 requires Grantees to monitor the day-to-day activities associated with grant and sub-grant supported activities and that the monitoring must cover each program, function or activity (see appendix C).

The City did not monitor its project sponsors in accordance with HUD requirements or its own policies and procedures. It did not monitor its project sponsors' fiscal records to ensure that cost centers were established to support the

source and application of funds used for cash match, nor did it have adequate support for salary expenses.

According to the City's monitoring log, it did not conduct any fiscal on-site monitoring of its project sponsors between August 2002 and July 2006. Further, all project sponsors contacted told us that the City had not conducted any on-site fiscal monitoring. The City stated that it conducted annual site visits to all programs located within its Multi Service Center, as well as annual site visits to two of its project sponsors not located within the Multi Service Center. However, 14 of the City's 15 project sponsors conducted their fiscal operations at separate locations outside of the Multi Service Center. The project sponsor that conducted fiscal operations at the Multi Service Center stated that it had not received fiscal monitoring within the last two years. Overall, we found that no fiscal monitoring had been conducted at any of the City's project sponsors.

As a result, the City failed to ensure that the grant funds were administered in the most effective and efficient manner to fulfill the intent for which the funding was provided. Details of the deficiencies caused by the lack of monitoring are discussed separately below.

#### Cash Match Was Unsupported

Regulations at 24, CFR [*Code of Federal Regulations*] Part 85 (see appendix C) requires grantees and subgrantees to maintain records that are verifiable and adequately identify the source and application of funds used for cash match.

The documentation contained in the City's grant files provided no evidence to adequately support that cash match was being provided. The City used project sponsors' invoices and copies of checks to verify that the cash match requirement was being met. It believed it was complying with the requirement by reimbursing a portion of the project sponsors' expenses. However, invoices and copies of checks did not ensure that the 25 percent match requirement was met and properly accounted for.

Seven of the eight project sponsors visited did not have cost centers established in their accounting systems, or another mechanism in place, to show the source and application of funds used as cash match. Specifically, \$315,320 in funds claimed as match for the seven project sponsors, which corresponded to more than \$1.1 million in expended grant funds, was unsupported (see appendix D). Additionally, the financial staff at each of the eight project sponsors stated that the City did not advise them of this requirement, nor did the City conduct on-site fiscal monitoring to ensure that the requirement was being met.

We attribute the deficiency to the City's lack of understanding of its responsibilities as a pass-through entity. It did not understand that the project sponsors were required to establish and maintain cost centers to track the source



and application of the cash match. As a result, the City did not adequately ensure that cash match requirements were met for more than \$1.1 million in expended grant funds. Had the City conducted on-site fiscal monitoring, it may have detected the problem.

#### Salary Expenses Were Not Adequately Supported

Regulations at 24 CFR [*Code of Federal Regulations*] Part 85 require accounting records to be supported by adequate source documentation. In addition, Office of Management and Budget Circular A-122 states that charges to awards for salaries and wages will be based on documented payrolls, supported by personnel activity reports (see appendix C).

The City's written fiscal monitoring policies and procedures required its project sponsors to submit payroll registers, subagent invoices, and detailed summary invoices (see appendix C). The payroll registers and other documentation submitted to the City from its project sponsors did not contain the required time and attendance records. We visited eight project sponsors, all of whom had the required time and attendance records to support that salaries paid to their employees were eligible to receive reimbursement from the City under HUD's Continuum of Care Supportive Housing Program. Although the project sponsors had the required documentation on site, they stated that they were unaware of the HUD requirements. Before our site visits, the City did not have adequate assurance that salary expenses reimbursed to its project sponsors were eligible. Had the City conducted on-site fiscal monitoring, it could have assured itself and HUD that the salary expenses were eligible and adequately supported.

The City stated that it believed the documents requested from its project sponsors provided adequate support to reimburse its project sponsors for salaries expended. The City stated that it had developed a staff cost worksheet to be used in conjunction with the subagent invoices and detailed summary invoices, in lieu of requiring the project sponsors to submit the time and attendance reports. We agree that such a worksheet is acceptable, but only if it is supplemented with a process to sample the project sponsors' records to assure itself and HUD that salary expenses are accurate and adequately supported. Thus, the City did not completely comply with the requirements associated with its responsibilities of administering grants to subgrantees. As a result, it did not adequately ensure that more than \$1.2 million used to reimburse salary expenses was spent appropriately and unnecessarily put grant funds at risk of being misspent. However, since we were able to confirm the eligibility of the expenses during our on-site visits to the project sponsors, we are not questioning the expenses. There is, however, a risk that salary expenses may not be adequately supported for those project sponsors not visited.

**The City Did Not Close Out Expired Grants Totaling Nearly \$2 Million**

Regulations at 24, CFR [*Code of Federal Regulations*] Part 583 (see appendix C) state that the recipient of awarded funds is expected to carry out the supportive housing or supportive services activities as proposed in the application and that HUD may deobligate the amounts for supportive services in any year if the actual costs are less than the total cost anticipated in the application. Additionally, regulations at 24, CFR [*Code of Federal Regulations*] Part 84 (see appendix C) require grant recipients to close out expired grants no later than 90 calendar days after the funding period. The City's written procedures complied with HUD requirements.

Of the 84 supportive housing grants that the City was awarded, 34 had expired with a balance of nearly \$2 million in unspent funds as of March 2006. We reviewed the grants again in July 2006 and found that several grants had been accessed and more than \$1.2 million in grant funds had been drawn down after the funding period expired. We reviewed the grants again, one last time at the end of our audit fieldwork on July 31, 2006, and found that the City still had not closed out 23 expired grants, which held a balance of \$636,916 in unspent funds. At the exit conference, the City informed us that it has now submitted all of the overdue grant close out certifications to HUD for review and processing, however HUD's review was still pending.

The City agreed that the grants had not been closed out timely; however it stated that it started closing out expired grants in March 2005 after it received a bulletin from the Los Angeles Office of Community Planning and Development, which clarified the grantees responsibilities for closing out expired grants timely. Although the City's written procedures complied with HUD requirements, it was not complying with those requirements before or after the March 2005 bulletin was issued, nearly two years after it had developed its written procedures. The City's failure to comply with HUD requirements unnecessarily delayed HUD from deobligating nearly \$2 million in grant funds that could have been put to better use.

**The City Failed to Provide at Least 50 Percent of Administrative Funds to the Project Sponsors as Intended by Congress**

The 2000 Super Notice of Funding Availability IV, section A (see appendix C), requires local governments that use nonprofit sponsors to administer homeless

assistance projects to pass on at least 50 percent of the administrative funds made available under the grant. In addition, the Congressional Conference Report H.106-379 regarding homeless assistance grants states “The conferees agree with report language proposed by the Senate and not included by the House directing HUD to ensure that State and local jurisdictions pass on at least 50% of all administrative funds to the nonprofit organizations administering the homeless assistance programs” (see appendix C).

Contrary to congressional intent, the City’s documentation showed that it was not passing on at least 50 percent of the administrative fees awarded by HUD. The City’s contracts with the project sponsors were boilerplate contracts, which stated that project sponsors were to receive 20 percent of the administrative fee and the City was to receive the remaining 80 percent. In total, \$903,826 was withdrawn from HUD’s Line of Credit Control System by the City to be used as administrative fees. The City passed on \$180,765 to its 15 project sponsors but kept and subsequently spent \$723,061 for its own administrative purposes. Therefore, there was \$271,148 that was utilized by the City instead of the project sponsors for supportive housing administrative costs.

Our discussions with the project sponsors revealed that the administrative fee was never negotiated. Several project sponsors stated that they thought they had to take the 20 percent or they would not receive any funding from the City. Several others stated that they could use the additional funds to administer their programs. One project sponsor stated that it almost had to send administrative staff home because of a lack of sufficient administrative funds. All project sponsors were unnecessarily burdened to pay administrative expenses with non-HUD funding that could have been used to further their program activities.

We attributed this deficiency to the City’s different interpretation of the requirement. The City explained that it was entitled to the amount of administrative fees in proportion to the administrative burden borne by it and that even 80 percent of the fee did not fully cover its administrative burden. Although the administrative responsibilities of the City’s Continuum of Care Supportive Housing Program are vast, the City should have been more sensitive to the administrative burden placed on its project sponsors and considered giving a greater percentage to the project sponsors. While we acknowledge that the City adequately supported that it expended those funds on supportive housing administrative costs, we believe that in the future the City should be compelled to provide at least half of the administrative fees to its project sponsors to fulfill Congress’ intent. The failure to do so caused an unnecessary burden on the project sponsors.

## **The City Failed to Make Timely Reimbursements to Its Project Sponsors as Required**

The City's written policies and procedures (see appendix C) state that the City is to reimburse its project sponsors within 45 days. Prior to the issuance of this report, the City revised its policy to state that it will reimburse its project sponsors within 90 days.

The Los Angeles Office of Community Planning and Development received several complaints that the City was failing to make timely reimbursements to its project sponsors. Therefore, we conducted an analysis to determine whether reimbursement payments from the City were unreasonably late. We found that the average time for the City to reimburse its project sponsors was 95 calendar days (three months). The three-month timeframe did not comply with the City's 45-day payment policy, so we did an analysis of the payment process. The average time it took the City to draw down funds from HUD's Line Of Credit Control System after receiving invoices from its project sponsors was 74 calendar days. Further, it took an additional 21 calendar days for the City Treasurer to remit a check to the City to use for payment to its project sponsors. Overall, we found that a 30-day delay in reviewing the invoices combined with several reviews of the same invoice (an additional 18 days) was a significant cause of the delayed reimbursements.

Several project sponsors complained about extremely late reimbursements. One project sponsor told us that it had been a year since its last reimbursement. Several other project sponsors said that it took the City an average of six months to reimburse them. One project sponsor stated that it had opened a line of credit because it was concerned that it would be unable to pay its staff. Additionally, we found several instances where the City did not draw down grant funds from HUD's Line of Credit Control System until after the grant terms had expired, which correlated with the project sponsors' complaints regarding unreasonably late reimbursement. Specifically, the City did not request drawdown of funds for seven grants (five project sponsors) before their term expiration dates; i.e., \$974,845 in grant funds were drawn down after the grant expirations, which caused five of the City's project sponsors to go an entire grant term without any funds being reimbursed from the City.

The City acknowledged that reimbursements to the project sponsors were slow. The City attributed part of the problem to deficient documentation submitted by the project sponsors, which required additional follow-up before reimbursements could be made. In addition, the City cited external delays with the contracting process as a contributing factor. The City's difficulty with adhering to its written policies and procedures caused its project sponsors to struggle financially and reduced the

project sponsors' ability to maximize the effectiveness of their Supportive Housing Program activities as intended by HUD.

## Conclusion

Collectively, we attribute the deficiencies to the City's and the project sponsors' insufficient knowledge and implementation of pertinent HUD requirements and its own policies and procedures relating to the administration of its Continuum of Care Supportive Housing Program. As a result, the City failed to ensure that HUD funds were spent in the most effective and efficient manner to maximize its program. It unnecessarily put HUD grant funds at risk, failed to ensure that cash match was supplied with non-HUD funds, needlessly delayed nearly \$2 million in expired grant funds from being deobligated and put to better use, and overburdened project sponsors with having to provide \$271,148 in non-HUD funds to administer their programs. Further, project sponsors were not reimbursed for their expenses in a timely manner.

## Recommendations

We recommend that the director of the Los Angeles Office of Community Planning and Development require the City to

- 1A. Comply with HUD's and its own HUD-approved policies and procedures regarding on-site monitoring of its project sponsors.
- 1B. Establish and implement a process to sample project sponsors financial data so the City and HUD will have adequate assurance that salary expenses are supported with proper documentation in compliance with HUD requirements.
- 1C. Provide support for \$315,320 in funds used as cash match or repay HUD from nonfederal funds \$1,185,740 in expended grant funds and implement written procedures to monitor its project sponsors to ensure compliance with HUD requirements for cash match and supporting documentation for salaries.
- 1D. Close out \$636,916 in expired grants immediately so that these funds can be put to better use and to comply with HUD requirements regarding the proper procedures for timely closeout of expired grants.
- 1E. Amend its current contracts with its project sponsors to allow for 50 percent of the administrative fees to the sponsors, unless it can provide documentation supporting that its administrative burden warrants a higher percentage.

1F. Establish and implement procedures to streamline invoice reviews and ultimately reduce the time it takes to reimburse project sponsors.

## SCOPE AND METHODOLOGY

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We performed our audit work at the City of Long Beach and selected project sponsors under its jurisdiction between March and September 2006. Our audit generally covered the period January 2001 through July 2006. We expanded the scope when necessary.

To accomplish our audit objective, we

- Reviewed relevant HUD regulations and Office of Management and Budget circulars.
- Reviewed HUD's Los Angeles Office of Community Planning and Development monitoring report and grant files associated with Supportive Housing Program grants received by the City and interviewed appropriate personnel.
- Nonstatistically selected and reviewed a sample of 11 supportive-services-only grants due to the high number and dollar amounts of the grants associated with the City's program. The total authorized amount for these grants was \$2,448,740, and the total disbursed was \$1,754,597 as of July 31, 2006.
- Reviewed the City's policies and procedures associated with its Continuum of Care Supportive Housing Program.
- Interviewed appropriate City personnel to obtain an understanding of its operations and internal controls.
- Reviewed documentation contained in the City's supportive housing grant files and revenue and expense reports and supporting documentation for the \$1,754,597 drawn down from HUD's Line of Credit Control System.
- Interviewed appropriate project sponsor personnel to determine whether there had been a pattern of late payments from the City and why the project sponsors received only 20 percent of the administrative fees associated with administering the Supportive Housing Program.
- Reviewed project sponsors' payroll data, cost allocation plans, and cash match accounts.
- Reviewed project sponsors' client files to verify eligibility (homelessness) and to determine the nature and extent of supportive services provided.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Policies and procedures that management has implemented to ensure accurate, current, and complete disclosure of financial results.
- Policies and procedures that management has implemented to reasonably ensure that its Supportive Housing Program grants are carried out in accordance with applicable laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The City did not have sufficient controls in place to ensure that it was knowledgeable of and implemented pertinent HUD requirements and its own written procedures related to its program administration.



## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Unsupported <u>1/</u>	Funds to be put to better use <u>2/</u>
1C	\$1,185,740	
1D		\$636,916

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, if the City implements our recommendations, it will ensure compliance with HUD requirements for cash match and supporting documentation for salaries.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the City implements our recommendations, it will ensure compliance with HUD requirements to liquidate all obligations incurred under the award not later than 90 calendar days so that \$636,916 in grant funds will be expended or immediately closed out and those funds put to better use.

## Appendix B


# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

### Comment 1

 <b>CITY OF LONG BEACH</b> DEPARTMENT OF HEALTH AND HUMAN SERVICES 2525 GRAND AVENUE • LONG BEACH, CALIFORNIA 90815 • (562) 570-4000
November 30, 2006
Joan S. Hobbs, Regional Inspector General for Audit 611 West 6 <sup>th</sup> Street, Suite 1160 Los Angeles, CA 90017-3110
Cc: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD
Dear Ms. Hobbs:
This letter contains the City of Long Beach's (City) comments to the U.S. Department of Housing and Urban Development Office of Inspector General's (OIG) draft audit report dated November 3, 2006 and revised November 21, 2006 (Report). The City disagrees with the majority of the alleged findings outlined in the Report, as well as the language used throughout the Report and the implications thereof.
<b>HIGHLIGHTS</b>
<b><u>What We Audited and Why</u></b>
In the first paragraph on page 1, the Report states that the OIG audited the City "in response to a recommendation from the Los Angeles Office of Community Planning and Development (CPD), which was prompted by concerns about inadequate operating procedures identified during on-site monitoring." The Report further states: "In addition, we received several complaints from project sponsors, alleging the City failed to make grant reimbursements in a timely manner."
At the exit conference on November 9, 2006, the City requested documentation supporting each of the above statements. The OIG representatives explained that no formal complaints had been lodged or allegations made and were unable to reference any actual monitoring findings. Rather, the OIG explained that it elected to audit the City because it is required under Federal law to audit a certain number of sites and the Los Angeles Housing and Urban Development Department (HUD) CPD asked the OIG to ensure that the City had complied with previous audit concerns as CPD made no findings in the past monitoring reviews.
Due to the lack of evidence to support the statements made, the City requests that the OIG revise this section to accurately reflect the reason the audit was conducted, or alternatively, provide the City with proof of the statements made in the draft Report.
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## Comment 2

Likewise, the City requests that the reference to the "complainants' allegations" in the second paragraph on page 1 be stricken as the OIG has confirmed that no such allegations existed prior to the audit.

### **What We Found**

In the first full paragraph on page 2, the draft Report attributes the alleged deficiencies to "the City's not placing sufficient emphasis on ensuring that it was knowledgeable of and implemented pertinent HUD requirements regarding its administration of its program. As a result, the City failed to ensure that HUD funds were spent in the most effective and efficient manner to maximize its program, unnecessarily overburdened project sponsors with paying for operations from nonfederal funding, and put HUD funds at risk of being misspent. Additionally, the City unnecessarily delayed nearly \$2 million in expired grant funds from being deobligated and put to better use."

As discussed at the November 9<sup>th</sup> exit conference, the City ensures that all agencies expend funds in accordance with 24 CFR Part 583, HUD's SuperNOFA Release, OMB Circulars, the SHP Desk Guide and the City's contract with HUD. At the exit conference, the OIG agreed that 100% of all funds expended were spent on eligible and allocable expenses per 24 CFR Part 583, HUD's SuperNOFA Release, OMB Circulars, the SHP Desk Guide and the City's contract with HUD. It follows that the City could not have lacked knowledge of the administration requirements, nor did the City fail to ensure the funds were spent in the most effective and efficient manner as they were spent in full compliance with federal regulations and the HUD contract. Therefore, the City requests that the OIG strike the derogatory language it used in the draft Report and replace it with language that reflects the City's compliance with HUD's requirements.

To ensure that agencies are knowledgeable about the HUD regulations, the City provides all funded agencies with the following information, which advises the agencies of their responsibilities (fiscal and otherwise) with respect to the grant funds:

- City Monitoring Guide, which sets forth the City's required procedures
- HUD SHP eligible costs
- HUD SHP Federal Desk Guide
- Homeless Definitions contained in the McKinney Vento Homeless Assistance Act
- HUD SHP self monitoring tools
- OMB A-110
- OMB A-122
- OMB A-133
- 24 CFR Part 583

In addition, the City periodically holds mandatory fiscal trainings (most recently in 2003, 2005 and 2006), which each agency is required to attend, and also requires each agency to attend the following HUD training sessions:

- Basically SHP
- Numbers Don't Lie They Hide

**Comment 3**

Furthermore, the City does not control HUD's ability or decision to deobligate funds and redirect them. HUD is in complete control of its funds and can deobligate funds at any time after expiration of a grant. Therefore, it cannot be said that "[t]he City's failure to comply with HUD requirements unnecessarily delayed HUD from deobligating nearly \$2 million in grant funds that could have been put to better use." (See paragraph 3, page 10)

**Comment 4**

Also within this first full paragraph on page 2, the City requests that item (3) be deleted as there is no finding that the City inappropriately withheld \$271,148 in grant funds from project sponsors in administrative fees or that such amounts were required to be passed on to the project sponsors.

**Auditee's Response**

The City requests that it be noted that the City vehemently disagrees with the OIG Report.

**Comment 6**

**BACKGROUND AND OBJECTIVES**

On page 6, the Report states that the "audit objective was to determine whether the City administered its Continuum of Care Supportive Housing Program in accordance with HUD requirements and whether the complainants' allegations had merit." As discussed above, the OIG representatives confirmed at the November 9<sup>th</sup> exit conference that there were no allegations against the City. Because this statement incorrectly states the reasons for the OIG audit, the City requests that the portion of this paragraph stating "and whether the complainants' allegations had merit" be stricken.

**RESULTS OF AUDIT**

The City requests that Finding 1 on page 7 be modified as follows:

**Comment 5**

- **Bullet 1:** The City requests that it be noted that the City has already begun to update its Monitoring Guide and has received HUD approval on several sections.

**Comment 3**

- **Bullet 2:** The City requests that it be noted that HUD has the authority to remove funding that remains after the 90-day grant period expires. Because of this authority, any alleged failure on the part of the City to close out grants has no impact on HUD's ability to redirect unused grant funds. As such, this should not be noted as a finding against the City. Rather, this is a finding relative to HUD for failure to promptly identify and redirect unused funds.

**Comment 4**

- **Bullet 3:** The City requests that this item be modified to reflect the fact that although the OIG may be of the opinion that administrative fees should be split

50/50, this is only the OIG's opinion and is not supported by any legal authority. The City's division of administrative fees 20% to the agency and 80% to the City was proper based on the NOFA and 24 CFR Part 583, which provide that administrative fees are to be passed on to the agencies in proportion to the administrative burden borne by them for the project. Not only did each agency contractually agree to the above-referenced split, but HUD also approved of this split when it approved the City's technical submission application. Further, although the Congressional Conference Report H. 106-379 may have directed HUD to ensure that State and local jurisdictions pass on at least 50% of all administrative funds to the nonprofit organization administering the homeless assistance programs, HUD did not impose this requirement in any of its governing authorities. Instead, HUD left the language requiring a split "in proportion to the administrative burden borne by them". Therefore, as the authorities are written, HUD was and is justified in asking the City to demonstrate its burden in relation to that of the sponsors to determine propriety of the split. However no representative of HUD has ever asked the City to provide additional documentary support to justify the propriety of its split. Rather than request such evidence, the OIG chose to act upon a speculative allegation not grounded in fact and write a finding with no authority supporting it. The OIG independently decided, based on a lack of understanding, that the City was in violation of a requirement when it was not. Such unsupported findings are improper and should be stricken from the OIG's Report.

**Comment 5**

- **Bullet 4:** The City notes that 24 CFR Part 583 and the OMB circulars are ambiguous as to what is considered "timely reimbursements". Based on 24 CFR Part 583 and the City's own revised policy manual, the City reimbursed agencies within 90 days, which the City requests be noted as "timely reimbursements".

The City requests that the OIG revise the language in this section, and in particular, the second paragraph, to accurately reflect the fact that the City has placed considerable emphasis on ensuring that it has strong knowledge of and appropriately implements pertinent HUD requirements.

**The City Did Not Monitor Its Project Sponsors as Required**

**Comment 6**

**Cash Match Was Unsupported**

As noted in the draft Report, 24 CFR 85.20(b)(2) requires the City and agencies to "maintain records which adequately identify the source and application of funds provided for financially-assisted activities." 24 CFR 85.20(b)(6) states that "accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc." The City provided just such source documentation to the OIG during its audit.

At the November 9<sup>th</sup> exit conference, the OIG representatives acknowledged that there is no regulation requiring actual "cost centers" as stated in the draft Report (see final

paragraph, page 8). However, they requested additional source documentation showing the source of match funds, thru audited financial statements showing all expenditures. The City has provided such records for all agencies as Attachment A. Independent CPA auditing firms prepared all audited financial statements in accordance with generally accepted accounting principals.

Salary Expenses Were Not Adequately Supported

**Comment 2**

Each agency with whom the City contracts maintains its payroll records, a fact confirmed by the OIG with respect to each agency visited. In accordance with the OMB Paper Reduction Act of 1980, Pub. L. No. 96-511, 94 Stat. 2812 (Dec. 11, 1980) codified in part at 44 U.S.C. § 3520, which established information policies ultimately meant to reduce the total amount of paper the United States Government handles, the City does not require the agencies to provide hard copies of these payroll records. Rather, the City obtains a staff cost worksheet report from each agency. This worksheet identifies the staff member, the number of hours per month, the gross salary/benefits, and the FTE proportion being billed to the particular Supportive Housing Program grant. During the course of the OIG's five-month audit, the City demonstrated that all agencies are in compliance not only with the payroll record keeping requirements, but also with the Paperwork Reduction Act of 1980. The City also requires project sponsor's to attend HUD sponsored financial trainings, which also reiterate the need for all project sponsor's to maintain payroll records in accordance with OMB requirements.

The City requests that this section be deleted in its entirety. If the OIG is not inclined to delete the entire section, the City requests that at the very least the OIG delete the final sentence on page 9, which states: "There is, however, a risk that salary expenses may not be adequately supported for those project sponsors not visited" as the City is confident that each project sponsor is in compliance with this requirement, as confirmed by the OIG site visits, and feels no such risk exists. The City also requests that the OIG delete the middle portion of the final paragraph on page 9, which states: "the City did not completely comply with the requirements associated with its responsibility of administering grants to subgrantees. As a result, it did not adequately ensure the more than \$1.2 million used to reimburse salary expenses was spent appropriately and unnecessarily put grant funds at risk of being misspent" as this statement is unnecessarily inflammatory, highly speculative and incorrect based on information provided to the OIG.

The City Did Not Close Out Expired Grants Totalling Nearly \$2 Million

**Comment 3**

The City began working with HUD to close out all expired grants in response to a HUD bulletin sent to grantees in March 2005 - more than 1 year and 3 months before the commencement of the OIG audit.

The City has closed out all grants listed on Appendix E to the Report, which is confirmed by a November 8, 2006 email from Cynthia Blatt, the City's CPD representative, which is attached as Attachment B. The City currently has only active grants open.

The City requests that the last sentence in the second full paragraph on page 10 be deleted or revised. This sentence states: "At the exit conference, the City informed us that it has now submitted all of the overdue grant close out certifications to HUD for review and processing, however HUD's review was still pending." The phrasing of this sentence implies a deficiency on the part of the City, whereas in reality, any purported deficiency with respect to the close out of these grants lies with HUD as the City has submitted all necessary paperwork.

Comment 4

As stated above, the City does not control HUD's ability or decision to deobligate funds and redirect them. Therefore, it cannot be said that "[t]he City's disregard for HUD requirements unnecessarily delayed HUD from deobligating nearly \$2 million in grant funds that could have been put to better use." As such, the City requests that this statement be stricken from the Report.

**The City Failed to Provide at Least 50 Percent of Administrative Funds to the Project Sponsors as Intended by Congress**

As stated elsewhere in this response, the City met its burden under the regulations to support its disbursement of 20% of the administrative fee to the agencies. Documentation supporting this split of administrative fees is attached as Attachment C.

**The City Failed to Make Timely Reimbursements to Its Project Sponsors as Required**

Comment 7

The OIG found fault with the speed with which the City reimburses the agencies. However, the OIG cannot point to any law or regulation that mandates that agencies be reimbursed within a specific period of time. Both 24 CFR Part 583 and the OMB circular refer ambiguously to "timely reimbursements" without offering any guidance as to what is considered "timely". In addition, in order to maintain the City's faultless system of internal controls, the City performs an in-depth review of all sponsor invoices submitted by its sponsor agencies for reimbursement. Such review takes not only time, but also skill and knowledge. To denigrate the time, effort and expense the City has put into training staff up to this level of competence and malign both the City and its employees is not only unfounded but also inappropriate and unacceptable. Such language in the OIG's draft Report shows only poor oversight by the OIG of its own staff.

As a result, the City requests that the following sentence in the last paragraph on page 12 be revised: "In addition, the City cited external delays with the contracting process as a contributing factor." Specifically, the City requests that this be clarified to more clearly state that the "external delays with the contracting process" refers to the lack of a HUD contract in some cases for more than one year beyond the expiration of previous

## Comment 8

grants. The City cannot reimburse agencies for funds expended until it has a signed agreement with HUD.

### Conclusion

Based on the arguments above, the City takes issues with the language, and strongly disagrees with the entire Conclusion as written by the OIG. The City requests that the OIG write a conclusion that accurately reflects the facts as revealed in its five-month audit of the City rather than resorting to the hyperbole expressed not only in its Conclusion but throughout the entire draft Report. The reasons for the City's disagreement are thoroughly explained throughout this response.

### Recommendations

1A: Comply with HUD's and its own HUD-approved policies and procedures regarding on-site monitoring of its project sponsors.

The City requests that this recommendation be removed in its entirety as the City complies with HUD's and its own HUD-approved policies and procedures regarding on-site monitoring of project sponsors. OMB Circular A-133 states that the City is to monitor the activities of subrecipients *as necessary*. At the exit conference on November 9<sup>th</sup>, the OIG representatives acknowledged that the grantee - in this case, the City - determines how often and what type of monitoring is "necessary". Each month, the agencies submit invoices to the City for reimbursement, which the City then audits. Also, on an annual basis for all Shelter Programs, the City performs a site programmatic review to ensure that services are being provided as indicated and required. In addition, the City monitors all agency compliance through the annual progress report. To the extent the City determines, based upon these procedures, that additional monitoring is necessary, the City performs such monitoring.

In addition to the foregoing and as stated above, the City provides the following materials to each agency to advise the agency of its responsibilities (fiscal and otherwise) with respect to the grant funds:

- City Monitoring Guide, which sets forth the City's required procedures
- HUD SHP eligible costs
- HUD SHP Federal Desk Guide
- Homeless Definitions contained in the McKinney Vento Homeless Assistance Act
- HUD SHP self monitoring tools
- OMB A-110
- OMB A-122
- OMB A-133
- 24 CFR Part 583



In addition, the City periodically holds mandatory fiscal trainings (most recently in 2003, 2005 and 2006), which each agency is required to attend. Each agency is also required to attend the following HUD training sessions:

- Basically SHP
- Numbers Don't Lie They Hide

These facts support the finding that the City has complied with all monitoring requirements. At most, this item should be noted as a concern rather than a finding. All language suggesting the City failed to adequately monitor the various agencies should be modified accordingly.

Comment 2

1B: Establish and implement a process to sample project sponsors financial data so the City and HUD will have adequate assurance that salary expenses are supported with proper documentation in compliance with HUD requirements.

The City is confident that the current monitoring procedures provide the level of assurance necessary that salary expenses are supported with proper documentation. As stated above, each agency with whom the City contracts maintains its own payroll records and submits a detailed staff cost worksheet to the City, which identifies the staff member, the number of hours per month, the gross salary/benefits, and the FTE proportion being billed to the particular Supportive Housing Program grant. Time and activity records are maintained on site at each project sponsor location. As a result, the City requests that this "finding" be changed to a concern.

Comment 6

1C: Provide support for \$315,320 in funds used as cash match or repay HUD from nonfederal funds \$1,185,740 in expended grant funds and implement written procedures to monitor its project sponsors to ensure compliance with HUD requirements for cash match and supporting documentation for salaries.

As stated above, 24 CFR 85.20(b)(2) requires the City and agencies to "maintain records which adequately identify the source and application of funds provided for financially-assisted activities." 24 CFR 85.20(b)(6) states that "accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

During the audit, the City supported the cash match with checks, invoices, payroll records, and the grant/subgrant documents. As the City was in full compliance with the federal regulations regarding cash match, at the exit conference the City requested clarification as to what additional documentation the OIG expected to see to support the cash match. The OIG representatives acknowledged that there is no regulation requiring actual "cost centers" as stated in the draft Report; however, they requested additional source documentation showing the source of match funds, including audited financial statements showing all expenditures. The City provided such records for all agencies (Attachment A). Independent CPA auditing firms prepared all audited financial statements in accordance with generally accepted accounting principals.

**Comment 3**

Based on the foregoing and the fact that the OIG agreed at the November 9<sup>th</sup> exit conference that 100% of the invoices submitted by the agencies were for eligible and allocable expenses and there was no misuse of Federal funds, the City requests that this item be removed from the Recommendations section and final Report.

1D: Close out \$636,916 in expired grants immediately so that these funds can be put to better use and to comply with HUD requirements regarding the proper procedures for timely closeout of expired grants.

The City began working with HUD to close out all expired grants in response to a HUD bulletin sent to grantees in March 2005 – more than 1 year and 3 months before the commencement of the OIG audit.

The City has closed out all grants listed on Appendix E to the draft Report, which is confirmed by Ms. Blatt's November 8, 2006. The City currently has only active grants open (Attachment B).

As stated above, the City does not control HUD's ability or decision to deobligate funds and redirect them. Therefore, it cannot be said that "[t]he City's disregard for HUD requirements unnecessarily delayed HUD from deobligating nearly \$2 million in grant funds that could have been put to better use."

Because the City has complied with all requirements regarding close outs, it requests that this recommendation be changed to a concern or be stricken from the final Report all together.

**Comment 4**

1E: Amend its current contracts with its project sponsors to allow for 50 percent of the administrative fees to the sponsors, unless it can provide documentation supporting that its administrative burden warrants a higher percentage.

As discussed above, a 50% split of administrative fees is not a current HUD requirement. It is the City's belief that the OIG does not have the authority to recommend that HUD modify its interpretation and application of its regulations as applied to one individual grant recipient. If HUD elects to amend its regulations to require that 50% of all administrative fees be passed on to project sponsors, the City will comply with this change upon receipt of official written notice of the change from HUD headquarters in Washington, D.C. Typically, such changes are noted in HUD's SuperNOFA Release and grantees are then required to comply with the changes from the date of the publication and not before. Until such time as HUD elects to amend its regulations, the City requests that the OIG remove this unsupported requirement from the Report.

Despite the OIG's lack of authority on this matter, the City has provided documentation proving that its allocation of administrative fees is in accordance with the administrative burden borne by the City and the sponsor agencies (Attachment C).

## Comment 5

**1F: Establish and implement procedures to streamline invoice reviews and ultimately reduce the time it takes to reimburse project sponsors.**

The City has amended its invoice procedures and included the updated procedures in its Monitoring Guide. On November 6, 2006, HUD approved the City's changes (Policy Bulletin 06-003). Under the new procedures, invoices will be paid within 90 days and the City will make every effort to pay invoices within 45-60 days per HUD's request. (Attachment D).

With respect to certain grants audited, the delay in drawing down grant funds was due to the fact that the City did not have a contract with HUD and cannot reimburse funds to an agency without a HUD contract.

As these are all reimbursement grants, the OIG's statement that a delay in reimbursement by the City could have "reduced the project sponsors' ability to maximize the effectiveness of their Supportive Housing Program activities as intended by HUD" is an inaccurate statement.

Because the City has complied with all requirements regarding invoice procedures, it requests that this recommendation be changed to a concern or stricken from the final Report.

### **CONCLUSION**

In conclusion, the City reiterates its disagreement with the majority of the findings in the draft Report. The City also objects to the implications of the inflammatory language utilized in the draft Report as the City firmly believes that it and its agencies have fully complied with all HUD regulations governing the grants covered by the audit.

*Corinne Schneider*

Corinne Schneider, Manager  
Bureau of Human and Social Services  
City of Long Beach, Department of Health and Human Services

## OIG Evaluation of Auditee Comments

- Comment 1** The City misstated the discussion at the exit conference and the report is accurate as written. During the exit conference the City requested documentation supporting the basis for the audit. We explained that auditing Community Development Program activities is a priority mandated by Congress. However, we did not elect to audit the City solely based on this mandate. We consulted with the Los Angeles Office of Community Planning and Development about grantees it recommended for possible audit. The Office of Community Planning and Development recommended that we conduct an audit of the City because of concerns it had about inadequate operating procedures identified during on-site monitoring. In addition, we, and the Office of Community Planning and Development received complaints from sponsors about the City's failure to make grant reimbursements in a timely manner. We advised the City that there was no written request for audit from the Los Angeles Office of Community Planning and Development, nor any formal written complaints.
- Comment 2** We disagree. Although the City asserts that it ensures all sponsors expend funds in accordance with HUD regulations, the City could not provide us with the required documentation to show that it effectively monitored the fiscal activities of its nonprofit project sponsors. At the exit conference, we did acknowledge that we did not identify any ineligible expenses. However, the City did not provide us with the supporting documentation required by HUD regulations for the cash match and salary expenses; thus, they were unsupported. As discussed below in Comment 6, the City has been unable to provide adequate supporting documentation to show that the project sponsors met the cash match requirements. With regard to the salary expenses, the City uses a staff cost worksheet to show the salary expenses being claimed for reimbursement. This does not comply with the federal requirement that the grantee must obtain the individual timesheets. However, we agree that this alternative would meet the requirements, but on its own it is insufficient. It needs to be supplemented with a process to sample the project sponsors' records to assure itself and HUD that the salary expenses are accurate and supported. Without such procedures in place there is indeed a risk. While we agree that we did not find any deficiencies with the project sponsors we visited, we cannot draw that same conclusion for the ones not visited. Further, it is incumbent upon the grantee (the City) to assure itself and HUD that the grant funds are spent in accordance with the grant requirements. Without adequate monitoring being done, that assurance level is not met. Therefore, we could not confirm that 100 percent of all funds expended were spent on eligible and allocable expenses based on the documentation the City maintained.
- Comment 3** We acknowledge that the City does not control HUD's ability or decision to deobligate funds, however, HUD regulations require the City to submit closing documentation before HUD is allowed to deobligate funds. The City's unnecessary delay in submitting the required closing documents to HUD was instrumental in delaying nearly \$2 million in grant funds from being deobligated

and put to better use. Further, we noted that the City drew down funds from many of the grants after their expiration to reimburse project sponsors for expenditures that took place during the grant period. Therefore, it is critical that HUD wait for the City to submit the closing documents before deobligating funds to ensure that all pending draw downs have been made. HUD can provide documentation during the audit resolution process to support that the expired grants in appendix E have been closed out.

**Comment 4** We have revised the statement to read that the City failed to provide at least 50 percent of the administrative fees to the project sponsors as intended by Congress. As we discussed and agreed at the exit conference, we removed the recommendation requiring that the City repay the project sponsors for the administrative fees. Nevertheless, we still contend that there is a valid finding. We recognize that although HUD approved the technical submissions, HUD does not have the authority to overrule a congressional mandate. 2000 Super Notice of Funding Availability IV, section (A), subsection (3) states: “Where an applicant for Supportive Housing Program funding is a State or unit of general local government that utilizes one or more nonprofit organizations to administer the homeless assistance project(s), administrative funds must be passed on to the nonprofit organization(s) in proportion to the administrative burden borne by them for the SHP [Supportive Housing Program] project(s).” The subsection further states: “HUD will consider States or units of general local government that pass on at least 50 percent of the administrative funds made available under the grant as having met this requirement which was contained in the congressional committees' report accompanying the FY 2000 HUD Appropriations Act.” Since the City did not comply with this intent, we recommended that HUD require the City to amend its current contracts with its project sponsors to allow for 50 percent of the administrative fees to the sponsors, unless it can provide documentation supporting that its administrative burden warrants a higher percentage. We believe that Congress expressed this intent to ensure that the project sponsors, who are actually providing the direct services to the homeless, have adequate administrative funding. We noted that during our site visits the project sponsors claimed that they were not party to any negotiations of the administrative fee and that the City just advised them what percentage they would receive. The Inspector General Act of 1978 was implemented with the purpose of establishing independent agencies to provide a means for keeping the head of the establishment [HUD] and Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action. Consequently, we indeed have the authority to recommend proposed corrective action to HUD. Once the report has been issued there is an audit resolution process in place to determine whether the proposed corrective action is appropriate or whether alternative action is more appropriate.

- Comment 5** We do not have enough information on what monitoring procedures the City has updated, so we can not make any changes to the report. The only update we are aware of related to the City's reimbursement policy with its project sponsors. In this situation, the City merely extended the payment period, which in our opinion does not address the root cause of the delays. We found that the City can further streamline its process by eliminating some duplicative reviews currently being done. Further, our report indicated that the City's monitoring guide was sufficient, but that the City did not implement the procedures contained within the guide. Nevertheless, we noted in the report that the City revised its reimbursement policy.
- Comment 6** We acknowledged at the exit conference that there is no requirement that cost centers must be used. The basic requirement is to maintain records which adequately identify the source and application of funds being used as match. We stated that the application of the funds was not in question, but rather the source of the funds claimed as match. We advised the City to submit documentation which showed the source of the funds and the receipt of those funds, such as cancelled checks and bank statements. We did not ask for audited financial statements since those would not adequately support the source of the funds. The City has been unable to provide that documentation thus far, but can provide it to HUD during the audit resolution process to resolve the recommendation.
- Comment 7** We agree there is no federally-set timeframe for reimbursements to project sponsors. However, we are sensitive to the fact that project sponsors are nonprofit organizations with limited resources that count on grant reimbursements to continue their operations. As noted in the finding, one project sponsor even opened a line of credit because it was concerned that it would be unable to pay its staff. While we acknowledge that the City has reviewed its reimbursement processes to make improvements, we identified areas where it can be further streamlined. We believe the cause statement was accurate as stated, thus, we did not make any changes. We agree that the City cannot reimburse project sponsors until there is an executed HUD contract; however, as stated above, we identified other areas in which the City can reduce the processing time.
- Comment 8** We disagree. In addition to our statements in Comment 2, we also note that in Title 24 Code of Federal Regulations Part 85.40 (a), it states that "grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activities". Our finding showed that the City did not monitor every function or activity of its project sponsors. In other words, the City monitored programmatic activities, but neglected its responsibility to adequately monitor fiscal activities. As a result, the City was not in compliance with HUD regulations.

**Comment 9** We disagree. Although the City is confident that current monitoring procedures are adequate to ensure itself and HUD that salary expenses are supported with proper documentation, the documentation maintained at the City level does not disclose time and attendance reports as required in the regulations. We advised the City that had it conducted on-site monitoring, it could have reviewed the source documentation to determine whether the information was supported by time and attendance records. We acknowledge that the City does not wish to request all documents from its project sponsors due to the Paper Reduction Act, however that does not relinquish its responsibility to review the source documentation required by regulation.

## Appendix C

### CRITERIA

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- A. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, subpart D, section 400 (d), states: “A pass-through entity shall perform the following for the Federal awards it makes: (2) Advise subrecipients of requirements imposed on them by the Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.”
- B. 24 CFR [Code of Federal Regulations] 85.40(a) states Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.
- C. Office of Management and Budget Circular A-122, Cost Principles for Nonprofit Organizations, attachment B, Compensation for Personal Services, section m (support of salaries and wages), subparagraph (1), states that charges to awards for salaries and wages will be based on documented payrolls, supported by personnel activity reports.
- D. 24 CFR [*Code of Federal Regulations*] 85.20(a)(2) states that fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Paragraph (b)(2) states that financial management systems of grantees and subgrantees must meet the following standards: grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities; and paragraph and (b)(6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- E. 24 CFR [*Code of Federal Regulations*] 85.24(b)(6) states that costs counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees.
- F. 24 CFR [*Code of Federal Regulations*] 84.71(a) states: “Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.” Paragraph (b)



states: “Unless HUD authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in HUD instructions.”

- G. 24 CFR [*Code of Federal Regulations*] 583.410(a) states when HUD and the applicant execute a grant agreement, funds are obligated to cover the amount of the approved assistance under subpart B of this part. The recipient will be expected to carry out the supportive housing or supportive services activities as proposed in the application. Paragraph (c)(ii)(2) states that HUD may deobligate the amounts for annual leasing costs, operating costs or supportive services in any year if (i) the actual leasing costs, operating costs or supportive services for that year are less than the total cost anticipated in the application.
- H. 2000 Super Notice of Funding Availability IV, section (A), subsection (3) states: “Where an applicant for Supportive Housing Program funding is a State or unit of general local government that utilizes one or more nonprofit organizations to administer the homeless assistance project(s), administrative funds must be passed on to the nonprofit organization(s) in proportion to the administrative burden borne by them (the nonprofits) for the SHP [Supportive Housing Program] project(s).” The subsection further states: “HUD will consider States or units of general local government that pass on at least 50 percent of the administrative funds made available under the grant as having met this requirement which was contained in the congressional committees' report accompanying the FY 2000 HUD Appropriations Act.”
- I. The 106<sup>th</sup> Congress Conference Report H. 106-379, Homeless Assistance Grants section, states, “The conferees agree with report language proposed by the Senate and not included by the House directing HUD to ensure that State and local jurisdictions pass on at least 50% of all administrative funds to the nonprofit organizations administering the homeless assistance program”.
- J. City of Long Beach Monitoring Guidelines (policies and procedures) (revised October 27, 2003)
- Section 3.5 states that the City is to identify grants ready for closeout, conduct a thorough administrative review, notify the project sponsors at least 90 days before expiration of the grant, and send a letter to the project sponsor confirming closeout of the grant.
  - Section 6.3 states that payroll registers are considered sufficient to support salaries expended by project sponsors.
  - Section 6.3.1 states: “Department of Health and Human Services processes invoices within 30 business days from date of receipt.”
  - Section 6.3.2 states: “The Payment Section of the Financial Management Department and City Auditor’s Office processes and cuts (produces) a check within 15 business days from date [an invoice is] forwarded by Department of Health and Human Services Accountant.”

## Appendix D

### SCHEDULE OF UNSUPPORTED CASH MATCH

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Grant number	Grant term	Unsupported cash match as of July 31, 2006*	Grant funds disbursed as of July 31, 2006**
CA16B006004	November 1, 2001 – October 31, 2005	\$7,849	\$21,411
CA16B006007	June 1, 2002 – May 31, 2007	\$55,546	\$236,334
CA16B006009	February 1, 2002 – May 31, 2006	\$15,227	\$61,276
CA16B206003	March 1, 2003 – May 31, 2006	\$37,965	\$125,998
CA16B206004	September 1, 2003 – August 31, 2006	\$26,940	\$109,843
CA16B206006	September 1, 2003 – August 31, 2006	\$24,737	\$191,921
CA16B206007	August 1, 2004 – July 31, 2007	\$22,011	\$96,193
CA16B306014	June 1, 2005 – May 31, 2007	\$6,878	\$20,696
CA16B906003	January 1, 2002 – December 31, 2005	\$101,055	\$252,120
CA16B906010	February 1 2002 – January 31, 2007	\$17,112	\$69,948
Totals		\$315,320	\$1,185,740

Notes:

\*We calculated the amount of funds counted towards the cash match requirement by using the City's grant expenditure tracking and grant funding spreadsheets for each of the grants shown. This amount reflects only the actual amount of funds reported as match by the City's project sponsors through July 31, 2006.

\*\*We calculated the total amount of disbursed funds for the ten grants administered by the seven project sponsors which did not provide the required support for cash match by using HUD's Line of Credit Control System reports. This amount reflects only those grant funds disbursed through July 31, 2006.

## Appendix E

### SCHEDULE OF EXPIRED GRANTS (FUNDS TO BE PUT TO BETTER USE)

Grant number	Project start date	Project end date	Authorized amount	Disbursed	Balance
CA16B006002	December 1, 2002	November 30 ,2004	\$301,914	\$301,464	\$450
CA16B006003	November 1, 2002	October 31, 2005	\$301,797	\$295,010	\$6,787
CA16B006006	March 1, 2002	February 28, 2005	\$488,507	\$402,902	\$85,605
CA16B006008	January 1, 2002	December 31, 2004	\$88,152	\$86,563	\$1,589
CA16B006009	February 1, 2002	January 31, 2006	\$61,300	\$61,276	\$24
CA16B006010	April 1, 2002	March 30, 2005	\$150,056	\$138,717	\$11,339
CA16B006011	February 1, 2002	January 31, 2006	\$59,162	\$59,160	\$2
CA16B106005	April 1, 2002	March 31, 2005	\$102,396	\$70,381	\$32,015
CA16B106006	April 1, 2002	March 31, 2005	\$150,255	\$148,678	\$1,577
CA16B106011	May 1, 2003	April 30, 2006	\$485,762	\$485,760	\$2
CA16B206003	March 1, 2003	February 28, 2006	\$126,000	\$125,998	\$2
CA16B306004	June 1, 2004	May 31, 2005	\$157,500	\$155,837	\$1,663
CA16B306011	September 1, 2004	August 31, 2005	\$218,336	\$186,293	\$32,043
CA16B306013	January 1, 2005	December 31, 2005	\$29,401	\$28,040	\$1,361
CA16B406014	April 1, 2005	March 31, 2006	\$282,450	\$0	\$282,450
CA16B406016	April 1, 2005	March 30, 2006	\$50,019	\$31,449	\$18,570
CA16B806002	October 1, 2001	September 30, 2005	\$317,612	\$310,462	\$7,150
CA16B806003	September 1, 2001	August 31, 2004	\$655,000	\$598,920	\$56,080
CA16B906003	January 1, 2002	December 31, 2005	\$307,088	\$252,120	\$54,968
CA16B906005	June 1, 2001	May 31, 2005	\$162,960	\$153,465	\$9,495
CA16B906008	June 1, 2001	October 31, 2005	\$245,821	\$236,390	\$9,431
CA16B906009	July 1, 2001	June 30, 2004	\$57,183	\$50,121	\$7,062
CA16B960303	April 1, 2001	March 30, 2005	\$650,000	\$632,749	\$17,251
<b>Total</b>					<b>\$636,916</b>