



Issue Date September 21, 2007

Audit Report Number 2007-LA-1016

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: A Community of Friends, Los Angeles, California, Did Not Always Administer Its Cash Match in Compliance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited A Community of Friends (Community) as a result of on-site audit work performed as part of a separate audit of the Los Angeles Homeless Services Authority's (Authority) use of Supportive Housing Program funds. Our audit objective was to determine whether the Community applied and tracked its U.S. Department of Housing and Urban Development (HUD) Supportive Housing Program cash match in accordance with applicable laws, regulations, and requirements.

What We Found

The Community did not always administer its Supportive Housing Program cash match in compliance with HUD requirements. It failed to meet its supportive services cash match requirements for 1 of 15 grants reviewed. The grant did not meet the statutory 25 percent cash match requirement and included ineligible expenses as cash match. A second grant, while still active, is deficient in the amount of cash match provided through

the first four months of the grant term. We attribute these deficiencies to the Community's inadequate understanding of cash match requirements and the Authority's (the pass-through agency) failure to monitor the Community's cash match operations.

What We Recommend

We recommend that HUD require the Authority¹ to repay the \$71,318 balance of the grant funds expended for the Vista Nueva supportive services grant from nonfederal funds. We also recommend that HUD require the Community to revise its policies and procedures to include details on cash match administration, including determining eligible cash match expenses. Finally, we recommend that HUD instruct the Community to explicitly state the original source of cash match funds on all future annual progress reports.

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.

Auditee's Response

We provided our discussion draft report to the Authority and the Community on August 9, 2007, and held an exit conference on August 15, 2007. The Authority and the Community provided their written comments on the requested date of August 24, 2007. The Authority and the Community generally disagreed with our report.

The complete text of the responses from the Authority and the Community, along with our evaluation of those responses, can be found in appendix B of this report.

¹ HUD awarded Supportive Housing Program funds to the Authority, which then passed the funds through to the Community to carry out the grant activities. The Authority is responsible for compliance with the grant agreement and HUD requirements as the grantee.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Community Did Not Always Administer Its Supportive Housing Program Cash Match in Compliance with HUD Requirements	6
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	12
B. Auditee Comments and OIG's Evaluation	13
C. Criteria	21

BACKGROUND AND OBJECTIVES

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.

A Community of Friends (Community) was established in 1988 as a building developer, creating housing for individuals and families with special needs. The Community has completed 1,169 units in 31 properties, primarily throughout Los Angeles County, California, and has several properties under development. Completed projects include substantial rehabilitation and new construction and range in size from 9 to 114 units.

The Community receives a substantial amount of its support from loans, contracts, and grants awarded by various federal, state, and local government agencies, foundations, and corporations. Since January 2004, the Community has received nearly \$8 million in Supportive Housing Program contracts, of which 15, totaling almost \$3.3 million, are currently active. A majority of the Community's Supportive Housing Program funding is passed through the Los Angeles Homeless Services Authority (Authority). Of the 15 grants we reviewed, 11 are passed through the Authority, and four are received directly from the U.S. Department of Housing and Urban Development (HUD).

Grant number	Project	Grant amount
CA16B300012	Brandon Apartments	\$ 325,549
CA16B300116	Project Independence (Gateways)	449,120
CA16B400002	California Hotel Apartments	392,700
CA16B400013	Fox Normandie Apartments	169,419
CA16B500003	Figueroa Apartments	210,433
CA16B500012	Fedora Apartments	112,450
CA16B500015	Fox Normandie Apartments	169,419
CA16B500017	Vista Nueva Apartments	156,635
CA16B500018	Las Palomas Apartments	225,355
CA16B500019	Brandon Apartments	162,775
CA16B500020	Gower Street Apartments	258,249
CA16B500025	Step Out (HUD direct)	213,003
CA16B400003	39 West (HUD direct)	350,000
CA16B400015	Parker (HUD direct)	52,250
CA16B500007	Parker (HUD direct)	52,250
Total		\$ 3,299,607

We initiated our audit based on results obtained during a separate audit² of the Authority and its use of Supportive Housing Program grant funds. During the audit of the Authority, we reviewed the Community's cost eligibility, participant eligibility, and cash match administration. Our review determined that the Community generally followed HUD rules and regulations with regard to cost and participant eligibility. However, we concluded that a limited scope audit focused on the Community's Supportive Housing Program cash match was warranted based on potential deficiencies identified.

Our objective was to determine whether the Community applied and tracked its HUD Supportive Housing Program cash match in accordance with applicable laws, regulations, and requirements

² Audit report 2007-LA-1013, Los Angeles Homeless Services Authority (June 8, 2007).

RESULTS OF AUDIT

Finding 1: The Community Did Not Always Administer Its Supportive Housing Program Cash Match in Compliance with HUD Requirements

The Community did not always administer its Supportive Housing Program cash match in compliance with HUD requirements. Specifically, it improperly applied ineligible expenses as cash match for 11 of 15 grants. However, while nine of the grants had enough additional sources of funding to meet the cash match requirements, one grant failed to meet the 25 percent cash match requirement of \$17,756. In addition, a second grant is deficient in the amount of cash match provided through the first four months of the grant term to ensure that it will have met the cash match requirements by the end of the grant term. The Community also failed to distinguish the source of the cash match on its annual progress reports to HUD. We attribute these deficiencies to the Community's inadequate understanding of cash match requirements, policies and procedures that did not address cash match, and the Authority's failure to monitor the Community's cash match operations. As a result, neither HUD nor the Authority was assured that the Community maximized the effectiveness of the Supportive Housing Program's intent.

The Community Failed to Provide the Required Cash Match for One Grant and Has Fallen Behind on a Second Grant

The Community had supporting documentation for all 15 of its active Supportive Housing Program grants and displayed the ability to track cash match, both in the general ledger and with the use of external spreadsheets. However, contrary to the 2005 Super Notice of Funding Availability and Office of Management and Budget Circular A-110 (see appendix C), the Community improperly applied ineligible expenses as cash match for 11 of 15 grants as shown in the table below. The Community also failed to distinguish the source of the cash match (County of Los Angeles Department of Mental Health, project-specific limited partnerships, and/or the Community) on its annual progress reports submitted to HUD.

Grant number	Project
CA16B300012	Brandon Apartments
CA16B400002	California Hotel Apartments
CA16B400013	Fox Normandie Apartments
CA16B500003	Figuroa Apartments
CA16B500012	Fedora Apartments
CA16B500015	Fox Normandie Apartments

CA16B500017	Vista Nueva Apartments
CA16B500018	Las Palomas Apartments
CA16B500019	Brandon Apartments
CA16B500020	Gower Street Apartments
CA16B400003	39 West (HUD direct)

Our review of the 11 grants identified the following ineligible expenses:

- Mileage reimbursement (not listed in the technical submissions),
- Auto allowance (not listed in the technical submissions),
- Personal cell phone allowance (not allocable and not listed in the technical submissions),
- Supplies (not always allocable),
- Salaries (timesheets did not always support claimed time), and
- Security expenses³ (expense not listed in the technical submission).

Based on further review, however, we determined that only one grant failed to meet the 25 percent supportive services cash match requirements. A second grant has fallen behind its 25 percent cash match requirement, however, it still has eight months in the grant term to meet its cash match obligations. The remaining nine grants maintained enough residential security expenses to cover the 25 percent cash match requirement. Details of the material deficiencies in the Community's cash match application and documentation for the two grants that did not meet the cash match requirements are discussed below.

- **CA16B500017 (Vista Nueva Apartments)** – The Community claimed supportive services cash match in the amount of \$5,335, which is \$12,421 short of the required 25 percent. In addition to the shortage, \$696 was for eligible cash match expenses, and \$4,639 was for ineligible cash match expenses. The ineligible expenses included mileage, parking, auto allowances, personal cell phone allowances, and one month of salary. For example, the Community applied \$3,042 of \$27,388, or 11.1 percent, in November 2006 for the salary of a residential services coordinator covering the period March 1 through October 31, 2006; however, timesheets indicated that only 2.54 percent of the residential services coordinator's time was charged to the Vista Nueva project. Therefore, only \$696 of the \$3,042 in claimed salary was eligible ($27,388 \times 2.54$ percent). The mileage, parking, auto allowances, and personal cell phone allowances were not listed in the approved budget as required and, therefore, were also ineligible. A breakdown of the grant disbursements and cash match for this grant are as shown below.

³ Applies only to Brandon Apartments grant CA16B300012.

Grant number	Amount disbursed	Supportive services	25 Percent match required	Cash match claimed	Eligible cash match	Ineligible cash match	Percentage of cash match not met
CA16B500017	\$ 74,290	\$ 71,023	\$ 17,756	\$ 5,335	\$ 696	\$ 4,639	96 percent

CA15B500019 (Brandon Apartments) – The Community claimed supportive services cash match in the amount of \$4,566, which is \$6,664 short of the required 25 percent. In addition to the shortage, \$4,292 was for eligible cash match expenses, and \$274 was for ineligible cash match expenses. The ineligible expenses included mileage, parking, auto allowances, and personal cell phone allowances. For example, the Community applied \$25 of \$170 as cash match for a December 2006 auto allowance. However, the auto allowance was not listed in the approved budget and was not grant specific and was, therefore, ineligible. The mileage, parking, and personal cell phone allowances were not listed in the approved budget, so they were also ineligible. Our review covered the period December 2006 through March 2007, therefore, the grant has eight months of which to meet its cash match obligations. We have identified this grant as deficient to bring awareness to the Community and the Authority that it has fallen grossly behind on its cash match obligations. However, we are aware that the Community has until the end of the contract period to fulfill its cash match obligations.

Grant number	Amount disbursed	Supportive services	25 Percent match required	Cash match claimed	Eligible cash match	Ineligible cash match	Percentage of cash match not met
CA16B500019	\$ 47,418	\$ 44,918	\$ 11,230	\$ 4,566	\$ 4,292	\$ 274	62 percent

The Community also failed to distinguish the source of the cash match (County of Los Angeles Department of Mental Health, project-specific limited partnerships, and/or the Community) on its annual progress reports submitted to HUD. Regardless of the source of cash match funds, the Community listed the source as itself on each of six annual progress reports we reviewed. However, all 15 grants in our sample received cash match funds from the Community, the County of Los Angeles Department of Mental Health, a project-specific limited partnership, or a combination of the three sources.

Conclusion

We attribute the cash match deficiencies to the Community's not understanding cash match requirements and the Authority's (the pass-through agency) failure to monitor the cash match operations of its subgrantees. Based on interviews and our documentation review, it was apparent that the Community did not have a firm understanding of which expenses were eligible as cash match and which were eligible sources of cash match funds. The Authority's failure to monitor the Community's cash match contributed to the

inadequate understanding of cash match requirements. A prior audit⁴ of the Authority's Supportive Housing Program grant administration concluded that the Authority did not adequately perform its desk review of the Community's cash match supporting documentation. As a result, neither HUD nor the Authority was assured that the Community maximized the effectiveness of the Supportive Housing Program's intent.

Recommendations

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

1A. Require the Authority to repay the \$71,318⁵ balance of the grant funds expended for the Vista Nueva supportive services grant from nonfederal funds.

1B. Require the Authority to monitor the Community's compliance with the cash match requirements on the Brandon Apartments supportive services grant. If the cash match requirement is not met by the end of the grant, then the Authority should be required to repay the balance of grant funds expended in which there was a cash match shortfall.

1C. Require the Community to revise its policies and procedures to include details on cash match administration, including determining eligible cash match expenses.

1D. Instruct the Community to explicitly state the source of its cash match funds on its annual progress reports.

⁴ Audit report 2007-LA-1013, Los Angeles Homeless Services Authority (June 8, 2007).

⁵ We calculated the \$71,318 as a percentage of total Supportive Housing Program funds disbursed. For grant CA16B500017, the Community received \$74,290, and we determined that it did not meet 96 percent of its cash match obligations; therefore, the prorated portion of the total disbursed is \$71,318.

SCOPE AND METHODOLOGY

We performed our audit work at the Community located in Los Angeles, California, from April through July 2007. Our audit generally covered the period December 2004 through March 2007. We expanded our scope when necessary.

To accomplish our audit objectives, we

- Reviewed applicable HUD regulations and Office of Management and Budget circulars.
- Reviewed HUD's Los Angeles Office of Community Planning and Development grant files associated with Supportive Housing Program grants received by the Community and interviewed appropriate personnel.
- Reviewed the Community's 15 Supportive Housing Program active grants, including the technical submissions, grant agreements, and annual progress reports.
- Obtained an understanding of the Community's procedures, including its controls to ensure that it properly administers its Supportive Housing Program.
- Interviewed the Community's management and staff to acquire an understanding of its cash match procedures, practices, tracking, and application.
- Reviewed the Community's payroll data, cost eligibility, and cash match accounts.
- Reviewed audited financial statements for the Community and the limited partnerships for each project.
- Reviewed contracts between the Community and the County of Los Angeles Department of Mental Health.
- Interviewed County of Los Angeles Department of Mental Health management and legal counsel to assess the eligibility of cash match funds provided.

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

INTERNAL CONTROLS

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.

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 item is a weakness:

- The Community did not have sufficient controls in place to ensure that its Supportive Housing Program grants were carried out in accordance with applicable laws and regulations (finding 1). However, we would like to note that the Community has taken positive steps to minimize its weaknesses by creating a system to track cash match, implementing policies and procedures, and becoming more informed on rules and regulations governing cash match.

APPENDIXES

Appendix A

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

Recommendation Number	Ineligible <u>1/</u>
1A	\$71,318

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations. In this situation, the Community failed to meet the 25 percent cash match requirement for two of its grants. We calculated the \$71,318 as a percentage of total Supportive Housing Program funds disbursed. For grant CA16B500017, the Community received \$74,290, and we determined that it did not meet 96 percent of its cash match obligations; therefore, the prorated portion of the total disbursed is \$71,318.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



CHIEF EXECUTIVE OFFICER
Dora Leong Gallo

BOARD OF DIRECTORS

PRESIDENT
Philip N. Feder
Partner
Paul, Hastings, Janofsky
& Walker LLP

1st VICE PRESIDENT
Michael S. Laroik
Managing Director
FTI Consulting

2nd VICE PRESIDENT
Sean L. Leonard
S. L. Leonard & Associates, Inc.

TREASURER
Jan Peiss
Executive Director
Mental Health
Advocacy Services

SECRETARY
Marc Bowersfield
General Manager, Higgins Loft
Action Community Management

ASSISTANT SECRETARY
Marta Cabildo
President
East LA Community Corporation

Detrich B Allen
General Manager
Los Angeles Environmental
Affairs Department

Suzanne Eberling
Director of Community Development
Galmore Associates

Allen Freeman
Chief Operating Officer
JSM Capital, LLC

Holena L. Jabany, AIA
Corporate Director & Managing Principal
Jabany - NAC / Architecture

Jeff Ong-Siong, CPA
Partner
RRZ, LLP

Carmel B. Sella
Community Development Manager
Wells Fargo

3345 WILSHIRE BOULEVARD, SUITE 1000
LOS ANGELES, CALIFORNIA 90010
TEL (213) 480-0809 FAX (213) 480-1788

August 24, 2007

Ms. Joan S. Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and
Urban Development,
Office of Inspector General
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017

Re: Audit Report Number 2007-LA-XXXX

Dear Ms. Hobbs:

After thorough review of the above referenced audit report, we provide the following comments:

Results of Audit

Recommendation 1A: A Community of Friends (ACOF) disagrees that the amounts stated should be repaid.
The Brandon Apartments supportive service grant was audited through March 2007. However, the contract term ends on November 30, 2007. HUD regulations do not require that the cash match be met pro-rata throughout the contract term. ACOF believes it is unreasonable to expect repayment of funding when the contract is still active. ACOF anticipates fully meeting the cash match requirement for this grant by the end of the contract term.

Recommendation 1B: ACOF has already begun the process of documenting the policies and procedures in relation to cash match.
The Vista Nueva supportive service grant was audited for the first 11 months of the contract. While preparing the final invoice, our review process discovered that part of the cash match had not been included on our schedules. The cash match amount on the February 2007 invoice to Los Angeles Homeless Services Authority (LAHSA) reflects that the match was met in full. This information was provided to your staff on August 15, 2007.

Recommendation 1C: ACOF now understands that the original source of the cash match funds are to be identified on the Annual Progress Reports (APR's). ACOF is including the source information in the current processing APR's for grants that ended recently.

We disagree with the wording in the heading "The Community Failed to Provide the Required Cash Match for Two Grants". We do not believe that we failed to meet the cash match. As stated above, both grants were audited before the contract

Comment 1

Comment 2

Comment 3

Comment 4

Comment 5

term ended, and HUD regulations do not require a pro-rata cash match throughout the contract term.

Internal Controls

As discussed at the exit conference, ACOF disagrees that there is a significant weakness in the internal controls over the Supportive Housing Program (SHP) funding.

As stated in the audit report "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."

ACOF acknowledges that there was some misunderstanding of some of the cash match eligibility issues. However, ACOF consulted with our Project Sponsor to determine whether costs were eligible as cash match. If ACOF included ineligible expenses, it was because ACOF was provided erroneous information. A review of existing HUD regulations provided no further clarification as the information regarding eligible cash match items is in conflict across the various regulations.

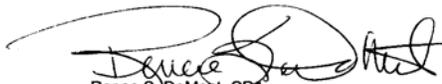
Misunderstanding what costs are eligible is not an internal control issue. ACOF is confident that the internal controls that are in place are sufficient to meet the objectives of the SHP grants. During the exit conference the only issue addressed, as specified in the audit report, was an insufficient knowledge. None of the recommendations specify a specific internal control policy or procedure that should be implemented.

We respectfully request that this finding be eliminated and the request for funds be rescinded. However, we understand that a report with recommendations 1B and 1C and suggestions for improvement is appropriate and warranted.

Sincerely,



Dora Leong Gallo,
Chief Executive Officer



Renae S. DeMent, CPA
Director of Finance and Accounting

Cc: Michael Arnold, Chief Operating Office,
Los Angeles Homeless Services Authority



Comment 6

Comment 7



Rebecca Isaacs
Executive Director

Michael Arnold
Chief Operating Officer

Board of Commissioners

Larry Adamson
Chair

Douglas Mirell
Vice-Chair

Rebecca Ávila

Howard Katz

Estela Lopez

Rev. Cecil L. Murray

Owen Newcomer

Louisa Oflague

Ramona Ripston

Administrative Office

453 S. Spring Street
12th Floor
Los Angeles, CA 90013

213 683 3333 - Ph
213 892.0083 - Fx
213 553.8488 - TTY

www.lahsa.org

August 24, 2007

Ms Joan S Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and
Urban Development,
Office of Inspector General
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017

Re: Audit Report Number 2007-I A-XXXX

Dear Ms. Hobbs:

Thank you for the opportunity to provide our comments on the preliminary audit report for A Community of Friends. We have reviewed the Draft Audit Report for A Community of Friends and submit the following comments.

1. We do not agree with the OIG Finding 1. While there are observations included in the finding that we agree with, the overarching finding that ACOF is non-compliant on meeting cash match on grants that have not closed and that there exists a material weakness in internal control is not supported by the auditor's findings. The basis for our determination is as follows:

24 CFR Ch. V, Section 583.145 provides the following:

b. Cash Resources: The matching funds must be cash resources provided to the project by one or more of the following: the recipient, the Federal Government, State and local government, and private resources.

Further, the SHP Desk Guide states the following:

"Match Requirements for Supportive Services: Beginning with the 1999 SHP awards, grantees must share in the costs of supportive services. The match requirement is an 80%-20% split of supportive service costs between SHP and the grantee, respectively. Match is a cash payment for the provision of supportive services. The grantee's cash source can be from itself, the federal government, state and local governments or private contributions."

Neither the regulations nor SHP's own reference guide has any reference to a timing requirement for the application of cash match. The program compliance component that documents compliance with this criterion is the Annual Performance Report filing, which is filed at the end of the grant year.

The finding as stated in the report has serious programmatic and practical implications for all HUD grantees. First, cash match sources are often not received pro-ratably during the course of the term of the grant. For example, an agency may have an annual fundraiser where virtually all cash match

Comment 8

Comment 9

Comment 10

Ms. Joan Hobbs
August 24, 2006
Page 2

funds are raised at one time. Secondly, some sources of cash match impose their own requirements for claiming funds. For example, some cities providing CDBG funding as a source of cash match may require that 100% of an invoice or period's costs be invoiced to avoid reviewing and processing twelve invoices per year. These cities require that the CDBG funding be billed as 100% of the program costs for one or two months of the year, thereby meeting the 20% match requirement, but meeting the requirement without causing the city to incur monthly costs associated with a pro-rata monthly invoicing and billing of 20% of program costs.

Comment 11

We believe the HUD OIG finding is not consistent with existing regulation or guidelines, and is contrary to the public interest as it has serious implications for all SHP grantees because of the expectation that cash match be applied pro-ratably over the term of the grant. Additionally, a requirement that cash match be met pro-ratably over the term of the grant can impose significant additional cost burdens to comply for local governments by significantly increasing the number and complexity of invoices required to be submitted to comply with this interpretation of cash match requirements. This additional burden may well discourage city and other local governments from participating in SHP programs, which is clearly not congressional intent.

Comment 12

CA16B500017, (Vista Nueva Apartments) has a contract term of March 2006 through February 2007. The period reviewed by HUD was for a period less than the full twelve-month performance period. Based on LAHSA records, cash match requirements were met as of the end of the contract period February 2007. Therefore, we do not believe ACOF to be out of compliance.

Comment 13

CA16B500019, (Brandon Apartments), has a contract term of December 2006 to November 2007. The OIG auditor reviewed less than three months of performance data, and while costs in addition to appropriate cash match had been charged to the program, the Sponsor had not completed its reconciliation or analysis for final reporting. We do not believe the HUD OIG auditor's review of this short period constitutes a basis for a finding of non-compliance based on the regulations and guidelines noted above.

Comment 14

It is important to note that the OIG auditor reviewed 4 SHP program contracts that had closed. All (100%) of the closed contracts had met or exceeded cash match requirements. When taken as a whole, and considering that 100% of closed grants reviewed met HUD cash match requirements, we do not agree that the Sponsor has a material internal control weakness, and request that this language be stricken from the report.

Comment 15

We concur that if ACOF does not monitor its grants through the end date to ensure compliance with match requirements, an out of compliance condition could result. However, given that each closed grant reviewed met cash match requirements, we believe ACOF has demonstrated adequate controls are in place to ensure compliance over the term of the grant. Had the auditor found any of the four closed grants out of compliance, our conclusions may be different.

Comment 6

Ms. Joan Hobbs
August 24, 2006
Page 3

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to major federal programs may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Given the fact that no material compliance issues were noted on the closed grant periods, we cannot agree with the HUD auditor's conclusion that the sponsor has a material internal control weakness.

We agree that additional education and training on the administration and management of SHP grants is important, and are committed to providing that to our program sponsors.

Thank you for the opportunity to provide our response to your preliminary report. We are hopeful that you will consider our comments in the drafting of findings in final report, and would be happy to discuss our position with you.

Sincerely,



Rebecca Isaacs
Executive Director

Cc: Dora Leong Gallo
Michael Arnold, C.P.A.
Renee S. DeMent, C.P.A.
Rhonda Wilson

Evaluation of Auditee Comments

- Comment 1** After meeting with HUD Office of Community, Planning, and Development officials, we have determined that the Community is correct in their assessment that cash match does not need to be applied as supportive services draws are received. We agree that the cash match requirement can be met at any time during the grant period and should meet the requirement by the end of the grant term. We have revised the finding to identify that the grant was cash match deficient at the time of our review. However, we have also noted that the Community still has eight months to meet its supportive services cash match requirement. To this end, we are no longer requiring repayment of grant funds for the Brandon Apartments grant.
- Comment 2** We disagree with the Community's assessment that we only reviewed 11 months of the contract. While we did base the cash match requirement on 11 months of supportive services funding, we reviewed 12 months of actual cash match, as documented by the Community. We received the cash match schedule clearly identifying 12 months of cash match. During a meeting on May 16, 2007, we asked the Community for any updates in its cash match tracking and received updated schedules for a number of Supportive Housing Program grants. However, we were told that the Vista Nueva schedule was current. We therefore, continued our review based on the schedule provided. We have determined to leave the portion of the finding related to Vista Nueva unchanged, as it reflects our review and finding as the facts stood during our fieldwork. Any new information that the Community discovers should be reviewed by HUD during the audit resolution process.
- Comment 3** We recognize the efforts the Community has taken to update its policies and procedures to strengthen its cash match internal controls.
- Comment 4** We recognize the efforts the Community has taken to ensure that its annual performance reports accurately reflect the source(s) of its cash match dollars.
- Comment 5** The heading has been changed to reflect the changes in Comments 1 and 2. The heading now reads "The Community Failed to Provide the Required Cash Match for One Grant and Has Fallen Behind on a Second Grant."
- Comment 6** We disagree that there was not a weakness in internal controls. During the exit conference we discussed what contributed to our assessment of the internal controls. Until recently (January 2007), the Community did not have an adequate tracking system that was forwarded to the Authority to ensure cash match was tracked and reviewed. Additionally, the Community did not have policies and procedures in place to ensure that cash match was being applied according to HUD rules and regulations. Finally, we noted that the Community's management did not have a complete understanding of the cash match rules and regulations.

We are aware of improvements the Community has made toward strengthening its internal controls and have made note of this in the report. For this reason, we removed the term “significant” from the audit report.

Comment 7 We disagree that the finding and repayment of funds be eliminated. However, the finding has been revised and no longer includes the finding or repayment as it pertains to Brandon Apartments (see comments 1 and 2 above).

Comment 8 We disagree that our finding is “overarching.” As noted in Comment 1, we agree that cash match does not have to be applied as grant money is received. To this end, we revised the Brandon Apartments portion and eliminated the requirement of repayment (see comment 1).

We also disagree that there were not material weaknesses in internal controls. As noted in comment 6, our review disclosed certain weaknesses that contributed to our finding. However, we eliminated the term “significant” and included a statement in the report identifying steps taken by the Community to strengthen its internal controls.

Comment 9 We agree that cash match does not need to be applied as grant money is spent and/or received (see comment 1). Our discussions with HUD have clarified common practice to review cash match as a whole at the end of a particular grants contract period.

Comment 10 The Authority is correct in stating that cash match funding is not always received at the beginning of a particular grant term and we have made the appropriate revisions to the finding. However, we want to bring awareness to the fact that each technical submission is required to show the cash match amounts along with commitment letters identifying the source of cash match dollars. Each grantee and/or subgrantee is required to show HUD the financial ability to provide cash match.

Comment 11 We agree. See comments 1, 9, and 10.

Comment 12 We disagree. Based on documents provided to us during our fieldwork, we determined that the Community did not fulfill its cash match obligations. As stated in Comment 2, we reviewed cash match as presented by the Community and did not receive a revised schedule until the exit conference. Our review was based on a complete 12 months of cash match, as presented by the Community. Any new schedules with additional cash should be reviewed by HUD during the audit resolution process.

Comment 13 As stated in Comment 1, we agree that cash match should does not need to be provided as grant money is spent and/or received. We, therefore, revised our finding to identify the Brandon Apartments grant as behind in its cash match and have clearly stated that the Community has until the end of the grant term to provide the full cash match. We have also eliminated any repayment with regards to Brandon Apartments.

Comment 14 Our review included closed and active grants based on our initial interpretation that cash match should be provided as grant money is received. We disagree that the Community did not have weaknesses in its internal controls for the reasons stated in Comments 2 and 6.

Comment 15 We disagree. See comments 2, 6, and 14.

Appendix C

CRITERIA

- A. **Regulations at 24 [Code of Federal Regulations] 85.40(a)** state that grantees are responsible for managing the day-to-day operations of grant and subgrant activities. Grantees must monitor grant- and subgrant-supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.
- B. **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.”
- C. **Regulations at 24 [Code of Federal Regulations] 85.24(b)(6)** state that costs counting toward satisfying a cost-sharing or matching requirement must be verifiable from the records of grantees and subgrantees.
- D. **The 2005 Super Notice of Funding Availability, part III, subpart B**, states that for all Supportive Housing Program funding for supportive services and Homeless Management Information Systems, a grantee must provide a 25 percent cash match. This means that of the total supportive services budget line item, no more than 80 percent may be from Supportive Housing Program grant funds. The cash source may be the grantee, other federal programs, state and local governments, or private resources. Documentation of the match requirement must be maintained in the grantee’s financial records on a grant-specific basis.
- E. **Office of Management and Budget Circular A-110, Uniform Administration Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, subpart C, section 23(a)**, states that all contributions, including cash and third-party in-kind, shall be accepted as part of the recipient’s cost sharing or matching when such contributions meet all the following criteria:
1. Are verifiable from the recipient’s records;
 2. Are not included as contributions for any other federally assisted project for the program;
 3. Are necessary and reasonable for proper and efficient accomplishment of project or program objectives;
 4. Are allowable under the applicable cost principles;

5. Are not paid by the federal government under another award, except where authorized by federal statute to be used for cost sharing or matching;
 6. Are provided for in the approved budget when required by the federal awarding agency; and
 7. Conform to other provisions of the circular, as applicable.
- F. **Annual progress reports** require that the cash match amounts be properly reported and the source of the specific cash match be explicitly stated.