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U.S. Department of Housing and Urban Development
New England Office of District Inspector General
for Audit, 1AGA
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Audit Memorandum
No: 2001-BO-1802

January 5, 2001

MEMORANDUM FOR: Mary Ellen Morgan, Director, Office of Community Planning
Development, Connecticut State Office, 1ED

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

SUBJECT: Department of Mental Health and Addiction Services
Continuum of Care Program
Hartford, Connecticut

We performed a review of the Continuum of Care Program (Supportive Housing and Shelter Plus Care Programs) administered by the Department of Mental Health and Addiction Services (DMHAS). Our objective was to determine whether the Continuum of Care Program was operated in accordance with DMHAS' approved application and HUD regulations.

Our review disclosed that the Supportive Housing Program is operated in accordance with HUD regulations and requirements. However, our review of the Shelter Plus Care Program disclosed violations of HUD regulations and requirements. We determined that rental payments by SPC tenants exceed the contract rent; administrative fees may surpass the amount allowed; and the minimum number of grant participants are not served.

Within 60 days, please provide us with a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary.

Should you or your staff have any questions, please contact our office at 617-565-5259.

Background

The HUD 1999 Notice of Funding Availability (NOFA) described Continuum of Care as "...a community-based process of identifying needs of the homeless and building a comprehensive and coordinated housing and service delivery system to address those needs." The NOFA further describes the primary components of a Continuum of Care system as:

- Outreach and assessment to identify an individual's or family's needs and make connections to facilities and services.
- Immediate (emergency) shelter and safe, decent alternatives to the streets.
- Transitional housing with appropriate supportive services to help people reach independent living.
- Permanent housing or permanent supportive housing arrangement.

Three of HUD's six Special Needs Assistance Programs (SNAPs) or Homeless programs, are 100 percent competitively funded through the Continuum of Care Program as authorized by the Stewart B. McKinney Homeless Assistance Act. These programs (Supportive Housing Program (SHP), Shelter Plus Care (SPC), and the Section 8 Moderate Rehabilitation for Single Room Occupancy Dwellings (SRO)) are administered by the HUD Office of Community Planning and Development (CPD).

In previous years, the Continuum of Care Program in Connecticut was administered by the State Department of Mental Health and Addiction Services (DMHAS). The total amount authorized for DMHAS for Continuum of Care Programs as of August 1, 2000, is \$35,786,103. DMHAS does not have SRO grants. A breakdown of the grants awarded by year is as follows:

<i>Type of Grant</i>	<i>Grant Year</i>	<i>Number of Grants</i>	<i>Authorized Amount</i>	<i>Total Disbursed as of August 1, 2000</i>	<i>Balance as of August 1, 2000</i>
SHP	FY1995	6	\$ 5,400,053	\$ 4,500,840	\$ 899,213
SHP	FY1998	2	1,979,870	572,378	1,407,492
Subtotal		8	7,379,923	5,073,218	2,306,705
SPC	FY1993	6	8,580,340	9,393,261	9,187,079
SPC	FY 1994	4	7,662,240	1,720,026	5,942,214
SPC	FY 1995	1	2,163,600	1,070,384	1,093,216
Subtotal		11	28,406,180	12,183,671	16,222,509
Total		19	\$35,786,103	\$17,256,889	\$18,529,214

Supportive Housing Program

The SHP was designed to promote the development of housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible (24 CFR 583.1(a)).

DMHAS submitted a single SHP application for New Haven, Connecticut which was comprised of six components for six separate aspects of the Continuum for a three year period beginning in Fiscal Year 1995. DMHAS was approved for two additional New Haven, Connecticut SHP grants in 1998.

Shelter Plus Care Program

The SPC Program was designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities (primarily those who are seriously mentally ill; have chronic problems with alcohol, drugs, or both; or have acquired immune deficiency syndrome and related diseases) and their families. The SPC Program provides grants to be used for rental assistance for permanent housing for homeless persons with disabilities. Rental assistance grants must be matched in the aggregate by supporting services that are equal in value to the amount of rental assistance and appropriate to the needs of the population to be served (24 Code of Federal Regulations (CFR) 582.1(a)).

DMHAS applications in 1993, 1994 and 1995 were for eight Community Mental Health Centers regional offices throughout Connecticut. The eight Centers funded as of July 31, 2000 are Bridgeport, New Haven (3 grants), Hartford (2 grants), Danbury, Middletown, Norwalk, Stamford, and Meriden. The SPC grants are used to fund tenant based rental assistance for permanent housing for homeless persons. Along with permanent housing, the homeless persons eligible for the SPC program are provided with accompanying clinical, social and vocational rehabilitation for their mental illness, drug dependency or a combination of both conditions.

Scope and Methodology

To achieve our objective, we judgmentally selected two SHP and two SPC grants for review. We identified the DMHAS expenses charged against the grant awards using the financial records maintained by DMHAS and regional mental health authorities when applicable. We analyzed supporting documents for expenses and reviewed tenant files. We held discussions with DMHAS' staff and representatives of regional mental health centers in Danbury and New Haven, Connecticut regarding their processes of accounting for funds, matching revenue and expenses; tenant services; and outreach. We conducted site visits to the mental health centers in Danbury and New Haven, Connecticut. We also held discussions with the local CPD office in Hartford, Connecticut.

Work was performed between August 2000 and November 2000. The audit period for SHP period covered January 1996 to June 2000 while the audit period for SPC covered May 1994 to June 2000. Where appropriate, the review was extended to include other periods.

Audit Results

Our review disclosed that DMHAS is operating its SHP in accordance with HUD regulations and requirements. However, our review of the SPC Program disclosed violations of HUD regulations and requirements. We determined that rental payments by SPC tenants exceed the contract rent; administrative fees may surpass the amount allowed; and the minimum number of grant participants are not served.

Rental Payments Exceed Contract Rent

DMHAS uses a Housing Assistance Payment (HAP) Contract for the SPC Program in contracting with landlords to provide tenant based rental assistance. The HAP Contract provides in paragraph 5(A)(2)(d),

“except for the housing assistance payment and the Tenant rent as provided under this Contract, the Owner has not received and will not receive any payments or other consideration...as the rent for the Contract unit”.

Our review disclosed evidence of cash payments paid to landlords, above the agreed amounts contracted between DMHAS and the property landlords, for two of 10 SPC tenants sampled in Danbury, Connecticut. One tenant was paying \$71 and the other tenant \$25 dollars privately to the landlords to continue to reside in the unit.

DMHAS contracted with the Danbury Mental Health Association, through the Danbury Housing Authority, to operate the SPC Program in its locale. DMHAS responds that they were not aware that these additional payments were being made by the SPC tenants. In fact, a follow up review conducted by DMHAS disclosed a total of seven instances where tenants made cash payments to landlords beyond the contractual agreements. DMHAS advised that they will continue to review the matter, including conducting tenant interviews. Once completed, DMHAS advised that they will take whatever appropriate action necessary to resolve these matters including legal means if necessary.

We agree with DMHAS' course of action, and we further believe that DMHAS needs to develop a monitoring structure to identify possible irregularities with their SPC contractors in the future. Additionally, we believe that DMHAS needs to develop and provide training to ensure that their SPC contractors administer the program within HUD regulations.

In response, DMHAS provided that it will focus its resources on an audit/monitoring function which will concentrate on areas within the overall SPC process. DMHAS advised that its conclusions will,

“provide the basis for administrative correction and more importantly provide an agenda for training”.

DMHAS anticipates the development of an annual training program by September 2001.

Administrative Fees May Potentially Exceed Amount Allowed

24 CFR Part 582.105 (e) (1) provides:

“Up to eight percent of the grant amount may be used to pay the costs of administering the housing assistance.”

The SPC grant agreements between HUD and DMHAS also limit administrative fees to eight percent of the grant amount.

DMHAS determines its administrative fees using Fair Market Rent (FMR) as opposed to actual rent expenses. As a result, DMHAS’ total administrative fees are on a course to be incurred before the SPC grant is expended, or possibly the administrative fee may exceed the amount allowed.

For example, DMHAS has drawn down \$9,640,196 in rental expenses, and claimed \$871,143 in administrative fees for all SPC grants awarded. The administrative fees were calculated based upon DMHAS’ method of 8 percent of the FMR. As a result, the administrative fee is 9.04 percent of the grant funds expended thus far, as opposed to the required 8 percent.

DMHAS believes it is not reasonable to be paid different amounts of administrative fee for exactly the same work. DMHAS further believes that the administrative fee of eight percent is insufficient to accomplish the tasks in SPC. DMHAS responded,

“it is our experience, based on staffing patterns two years ago, that our cost of administering this program is in excess of 15 percent.”

As stated previously, the maximum amount that may be used for administration expense is 8 percent of the grant. DMHAS must recognize that using their method of calculation, total administration fees will be incurred, or possibly exceed the required amount before grant funds are exhausted. DMHAS must change their method of calculation, or acknowledge that once total administrative fees as allowed by HUD are incurred, non federal funds will be utilized to complete the grant.

Minimum Number of Grant Participants Not Achieved

The number of participants served by grant funds must meet or exceed the number of participants shown in its application for the five year term of the grants. (24 CFR Part 582.105 (c)(2)). In addition, Federal regulations further provide that using funds by renting housing at less than FMRs could be used to pay for rent increases or to fund additional participants.

Review of two SPC grants indicated this was not achieved:

Grant Number and City	Participants on Application	Participants on Rent Detail (June 2000)	Average Participants for Feb-July, 2000	Participants Over or Under Application
CT26C93-1104 Danbury	30 Rental Units	26	26	4 Under
CT26C95-0039 New Haven	50 Rental Units	44	45	5 Under

Based on the above schedule, DMHAS should be servicing at least an average of four more participants in Danbury, Connecticut and 5 additional participants in New Haven, Connecticut. This represents 13 percent (4/30) fewer participants than agreed within Danbury, Connecticut, and 10 percent (5/50) fewer participants than agreed within New Haven, Connecticut.

DMHAS' officials have limited the number of housing vouchers to the number agreed to on the grant application. Since only the number of participants listed on the application are issued housing vouchers, there is lag time between when the vouchers are assigned to potential clients and when these potential clients find a property that is suitable for the program. Even though 26 are shown as participants in Danbury, Connecticut, there are four potential clients with housing vouchers who are attempting to find suitable housing.

Our review of DMHAS' Annual Performance Reports disclosed that both New Haven and Danbury, Connecticut have a waiting list of potential participants. In attempts to maximize occupancy, DMHAS should consider alternative actions. DMHAS advised that certificates will be issued as to house the maximum number of participants. With sufficient people on the waiting list, we believe DMHAS has the potential to fund more participants than stated on their application if savings from funding housing at rates less than FMRs are used .

Recommendations

We recommend that your office:

1. Monitor DMHAS' corrective action plan to resolve matters with tenant rental payments in excess of contract rent.

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2. Ensure DMHAS develops a monitoring and training plan that will ascertain whether all SPC contractors administer the SPC Program within HUD regulations.
 3. Ensure DMHAS' administration fee for all SPC grants does not exceed 8 percent of the total grant awarded.
 4. Provide technical assistance to DMHAS on approaches to maximize occupancy for all SPC grants.

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