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District Inspector General for Audit

August 24, 2001

**Audit Memorandum
No. 2001-PH-1802**

MEMORANDUM FOR: Joyce Gaskins, Director, Office of Community Planning and Development, 3AD

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: City of Philadelphia
Shelter Plus Care Grant
PA26C960002
Philadelphia, Pennsylvania

As part of a nationwide review of HUD's Continuum of Care Program, we audited a 1996 Shelter Plus Care Grant awarded to the City of Philadelphia (City) and its Sponsor, the Tenants' Rental Assistance Corporation (TRAC).

BACKGROUND

Title IV, subtitle F of the Stewart B. McKinney Homeless Assistance Act authorized the Shelter Plus Care Program. The Program is 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 AIDS; and/or a related disease) and their families. There are only two eligible activities under the grant – rental assistance and grant administration.

The City of Philadelphia (City) is the grantee for all Shelter Plus Care grants awarded to Philadelphia. The Shelter Plus Care Grant that we tested was awarded by the City to its Sponsor, the Tenants' Rental Assistance Corporation (TRAC), and is known as the Shelter Plus Care IV Grant. TRAC submitted the original grant application to the City and the City sponsored the grant and became the actual grantee. The City, through its Office of Housing and Community Development (OHCD), entered into single year contracts with TRAC to administer the grant over the course of the grant term.

TRAC works closely with the Tenants' Action Group (TAG) – another non-profit housing organization. Together, they are a city-wide coalition of tenant groups committed to improving rental housing conditions in Philadelphia by giving individuals and families more control over their housing situation, and equalizing the political, economic, legal, and social relationships between landlords and tenants. The organizations advance and defend the rights and interests of tenants and homeless people throughout Philadelphia, and strive to guarantee that all Philadelphians have access to safe, decent, accessible, and affordable housing. They also provide rental and other related financial assistance to tenants for transitional housing, emergency services, and special needs counseling and housing for persons with AIDS.

The Shelter Plus Care IV Grant awarded to the City in 1996 totaled \$913,200. The Grant was to provide rental assistance for 20 single bedroom and 5 multi-bedroom units, or a total of 25 units (also known as “slots”), for five years from February 1997 through January 2002.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine whether the City and TRAC:

- Implemented the grant in accordance with their application;
- Expended funds for eligible activities under Federal regulations and applicable cost principles;
- Maintained evidence of measurable results;
- Ensured a sustainable program; and
- Expended funds timely.

To meet our objectives we interviewed HUD, TRAC, and the City of Philadelphia's Office of Housing and Community Development (OHCD) officials; visited a sample of assisted units; reviewed the grant application, grant agreement and progress reports; and analyzed financial records and participant files.

As of June 25, 2001, total expenses drawn from the grant were \$331,907. We reviewed \$283,794 or 85.5 percent of these expenses.

Our review covered the period February 28, 1997 through June 25, 2001, and was conducted between September 2000 and June 2001.

SUMMARY

We found that the City did not ensure TRAC implemented its Shelter Plus Care IV Grant according to its grant agreement and applicable Federal regulations. This occurred because the City did not provide adequate guidance and oversight in monitoring TRAC's administration and implementation of the grant. Specifically, the City did not ensure TRAC (1) actually provided or documented matching supportive services had been provided to program participants, (2) only provided assistance to eligible participants, (3) accurately reported the results of its grant

activities, and (4) maintained full or near full capacity in funding 25 units that were available under the grant agreement. Due to this lack of oversight, the effectiveness of the grant in providing rental assistance and supportive services for hard-to-serve homeless persons with disabilities and their families was dramatically diminished under the grant period. As of June 25, 2001, four and one-quarter years into its five-year grant period, TRAC had used only \$352,537 of its \$913,200 grant with \$33,468 of these expenditures being used to provide rental assistance to two participants that we determined to be ineligible. Further, the City/TRAC has not been able to provide adequate documentation to support its claimed level of supportive services (match) that it provided to its participants as is required by Federal regulations.

Also, we noted that the management controls used by both the City and TRAC may not adequately protect grant funds from fraud, waste, or abuse. Specifically, we found that: (1) funds were mistakenly drawn from the Shelter Plus Care IV Grant to pay expenses incurred under a different Shelter Plus Care Grant; (2) the administrative cost rate for the housing counselor was not supported and time sheets were improperly completed; and (3) key duties at TRAC were not properly segregated. These management control weaknesses expose grant funds to a greater risk of fraud, waste, or abuse.

Due to the serious nature of the findings, we recommend HUD suspend payments under this Shelter Plus Care Grant to the City until such time as the City is able to demonstrate it has taken appropriate corrective actions to more effectively administer its program and better protect grant funds from potential fraud, waste, or abuse. Further, we recommend the City repay the \$331,907 it drew down for the program as of June 25, 2001 unless it provides adequate documentation to support its claimed level of supportive services match. However, even if the City is able to provide such documentation, we recommend HUD require the City to repay the \$33,468 that was used to provide rental assistance to ineligible participants.

Details of our conclusions are contained in Attachment A.

On July 19, 2001, we provided the City with a draft of this memorandum. The City responded to the draft on August 2, 2001. We also discussed the City's response in an exit conference held on August 6, 2001 and considered the City's comments in preparing our final report.

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

Should you or your staff have any questions, please contact J. Phillip Griffin, Assistant District Inspector General, at (215) 656-3401, extension 3490.

Attachments:

- A. Findings and Recommendations
- B. Schedule of Questioned Costs
- C. Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1 – The City Failed to Ensure TRAC Implemented Its Shelter Plus Care Grant in Compliance with Federal Regulations and the Grant Agreement.

The Shelter Plus Care IV Grant awarded to TRAC from the City was not implemented according to the grant agreement and applicable Federal regulations. This occurred because the City did not provide sufficient guidance or oversight in monitoring TRAC's administration and implementation of the grant. Specifically, the City did not ensure TRAC (1) actually provided its supportive services match to eligible participants; (2) restricted grant assistance only to eligible participants; (3) filed accurate Annual Progress Reports; and (4) maintained full or near full capacity in its 25 slots. As a result, after four and one-quarter years in its five-year plan, TRAC had used only \$352,537 or 38.6 percent of its \$913,200 grant in providing rental assistance for hard-to-serve homeless persons with disabilities and their families, and provided \$33,468 in rental assistance to two ineligible participants.

Due to the City's lack of control over the grant usage, HUD cannot rely on the City to properly administer its Shelter Plus Care grants, and as such, HUD should suspend payments under this Shelter Plus Care Grant to the City until the City demonstrates its ability and willingness to properly administer the funds.

City could not provide or document supportive services (match) were provided to eligible participants.

Although the City claimed in its Annual Progress Report that \$178,089 of supportive services match had been provided to participants as of January 31, 2000, neither the City nor TRAC could provide any documentation to verify the required supportive services were actually provided to the participants who received assistance under this grant¹.

Title 24 CFR 582.110 requires the City to provide or ensure the provision of supportive services, even if it has to fund the services itself. Further, the regulations require the supportive services be at least equal in value to the aggregate amount of rental assistance funded by HUD (the grant amount of \$913,200). The subsequent agreement between OHCD and TRAC states that TRAC shall ensure the participants receive the supportive services and maintain documentation concerning the type and value of those services. The City relied on its agreement with TRAC to ensure that the supportive services were provided and documented. However, the agreement between OHCD and TRAC does not relieve the City of its obligation to ensure the supportive services are actually provided in accordance with its agreement with HUD.

¹ In the April 30, 2001 APR, the City claimed that \$178,809 of supportive services had been provided and that additional supportive service totals for the period of February 1, 2000 to January 31, 2001 were not yet available. The \$720 difference between the 2000 APR and the 2001 APR supportive services appeared to be a typographical error.

Since the City and TRAC were not able to provide documentation to support their claim of the supportive service match they provided to program participants, the City needs to repay the entire amount drawn down for the program (\$331,907 as of June 25, 2001).

However, in its response to our draft audit memorandum, the City stated it had assembled the required information from the start of the Grant through June 30, 2001, and attached a sample of the information to the response. HUD will need to examine the documentation to determine if it adequately supports the City's claim.

Ineligible Participants Received Housing Assistance Under the Grant.

As of May 2001, TRAC had spent \$33,468 from the grant funds to provide housing assistance to two ineligible participants. According to documentation in the tenants' files and interviews with their landlords, the tenants were not living on the streets, in temporary shelters, or in danger of imminent eviction from their homes immediately prior to receiving assistance through the Shelter Plus Care IV Grant.

Title 24 CFR 582.5 states homeless or homeless individual has the meaning given in Section 103 of the McKinney Act (42 U.S.C. 11302). According to 42 U.S.C. Section 11302, a homeless individual is an individual who lacks a fixed, regular and adequate nighttime residence, and an individual who has a primary nighttime residence that is a public or private shelter, institution, or a place not designed for or ordinarily used as a regular sleeping accommodation for human beings.

The two participants in question did not meet the definition of homeless persons. Therefore, they were not qualified to receive assistance from the Shelter Plus Care Grant, although they may have been qualified for other Federal housing assistance programs.

The City maintains the two participants meet HUD's definition of homeless and submitted information to support that position in its response to our draft audit memorandum. However, we determined the information was not sufficient to change our opinion.

Grant Results were Incorrectly Reported in the Annual Progress Reports.

TRAC overstated the number of participants who received assistance under its Shelter Plus Care Grant in the Annual Progress Reports (APRs) it submitted to the City and HUD. This occurred because TRAC's Program Director mistakenly counted applicants as participants when reporting the yearly program results to OHCD. Further, OHCD did not detect the error because it did not monitor nor verify the results reported by TRAC.

According to the Annual Progress Report instructions, a participant is a person who actually received assistance during the operating year. The APR instructs that participants be reported, not applicants.

The following table contains the number of participants actually assisted compared to the number of participants claimed.

Reporting Period	Number of Participants – Reported on APR	Number of Participants – Actual
1998	20	12 *
1999	18	17 *
2000	24	22 **

*- Includes one ineligible participant.

** - Includes two ineligible participants.

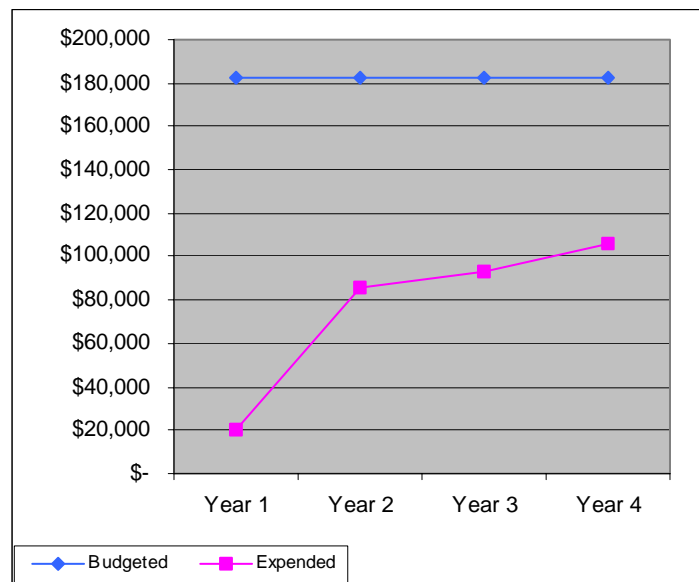
Overstating the number of participants that were actually assisted not only distorts the success of the program, but masks TRAC's inability to maintain full or near-full capacity of slots (units) under the grant agreement.

TRAC did not Maintain Full or Near Full Capacity of its Available Slots.

Thus far, TRAC has not been able to maintain full or near full capacity of the 25 slots available under the Shelter Plus Care IV Grant. We found TRAC had incurred total expenses of \$352,537 (38.6 percent) against the grant as of May 2001. If full capacity had been maintained in all 25 slots, TRAC should have incurred expenses of \$791,440 as listed in the budget for that date. Since the City did not expend funds as quickly as it had anticipated in its request, it will not likely be able to expend all of its grant funds by the end of the five-year term in January 2002.

The following graph shows TRAC has consistently failed to meet its yearly expenditures budget, meaning that full or near-full capacity is not being met on an annual basis. For example, during year 4 of the grant, TRAC spent only \$105,934, while it had budgeted \$182,640. At the current rate of expenditures, we estimate that TRAC will only have spent approximately 47 percent of the total \$913,200 grant funds by the time that the grant expires in January 2002.

Yearly Grant Expenditures



There were two factors that contributed to TRAC's failure to maintain full or near-full capacity of the 25 slots available under the Shelter Plus Care IV Grant. First, the City did not sign an agreement with TRAC to provide the housing assistance until five months after the grant was awarded. Secondly, TRAC did not adequately manage the process of getting candidates into the slots. TRAC must verify each candidate's income, eligibility, and disability. After the candidate is selected, he/she must find a suitable unit and TRAC must ensure each unit passes a Housing Quality Standards (HQS) inspection. Of these three processes, finding a unit and obtaining the HQS inspection are the most time consuming. Additionally, prior to final approval, some candidates decided they do not want to participate in the program and the lengthy process had to begin again.

Title 24 CFR 582.410 allows HUD to deobligate all or a portion of the approved grant amount if such amount is not expended in a timely manner.

The City's Director of Special Needs Assistance indicated her intention to seek an extension of the grant until the funds are fully expended. She also indicated that timely expenditure of grant funds was a common problem with all Shelter Plus Care grants.

In its response, the City stated it has difficulty understanding the auditor's attempt to simply equate program spending with program performance. Also, the City cited various difficulties and obstacles encountered in the implementation of this Grant. We feel that not only the slow rate of expenditures but the low number of participants discussed in the previous section of this finding indicate the City's lack of success in achieving and fully utilizing the Grant funds.

Recommendations:

We recommend that HUD:

- 1A. Suspend payments under this Shelter Plus Care Grant for the City until such time as the City demonstrates its ability and willingness to administer the Grant appropriately, including: monitoring its subgrantees to ensure that supportive services are provided and documented; ensuring participants are eligible; accurately reporting results; and maintaining full or near full capacity in the slots assisted under the Shelter Plus Care Grants.
- 1B. Ensure the City provides adequate documentation to support its supportive services match. If the City does not provide adequate documentation, require the City to repay the \$331,907 that it drew for the program as of June 25, 2001. Similarly, if the City does not provide adequate documentation, require the City to repay the \$33,468 of misspent Grant funds for ineligible participants.

Finding 2 – Management Controls May Not Adequately Protect Grant Funds from Fraud, Waste or Abuse.

The management controls used by both the City and by TRAC may not adequately protect grant funds. As noted in Finding 1, the lack of monitoring by the City could allow funds to be misused and not be detected in a reasonable time. During our review, we also identified a number of other management control weaknesses that included a lack of: (1) proper controls over draw down procedures; (2) supporting documentation for TRAC's administrative cost rate of its housing counselor and accurate time sheets supporting the housing counselor's work; and (3) segregation of TRAC's bookkeeping duties. As a result, the City drew down \$84,638 from the Shelter Plus Care IV Grant to pay expenses incurred for another Shelter Plus Care Grant. Also, TRAC could not support the amount billed for its housing counselor and the time sheets supporting the housing counselor's time were inaccurate.

City drew down \$84,638 from the Shelter Plus Care IV Grant to pay the expenses of another Shelter Plus Care Grant.

During our review of the draw downs for this grant, we noted that the City drew funds from this grant for expenses related to another grant. To illustrate, as of September 12, 2000, a total of \$283,794 was drawn by OHCD from the grant. However, TRAC's records indicated that it had requested and received only \$199,156 of that amount. The \$84,638 difference was mistakenly drawn from this grant to pay expenses incurred under a different Shelter Plus Care Grant.

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, paragraph C.3.c. states the costs of one award may not be charged to another award unless in accordance with existing program agreements.

The OHCD Accounting Supervisor believed that the error occurred because an incorrect grant number may have been placed on the request prior to batch processing.

TRAC's administrative cost rate for its housing counselor could not be supported and time sheets supporting the housing counselor's time were inaccurate.

TRAC claimed a reimbursement rate of \$17 per hour for its housing counselor, even though the actual salary rate for the counselor never exceeded \$13.64 per hour. Neither TRAC nor OHCD officials were able to provide any written support for the \$17 per hour rate.

TRAC's housing counselors also completed their time sheets improperly when they worked on more than one grant during the day. The time sheets showed that the housing counselors spent more time working on some of the grants than was actually worked. As an example, time sheets for one individual indicated total time charges of 12 hours per day. However, we were informed the time actually worked was 4 hours per day on each grant (total of 8 hours per day). Neither TRAC nor OHCD officials were able to explain why the time sheets were filled out this way.

OMB Circular A-87 Attachment B, paragraphs 11.h. (4) and (5), requires that when employees work on multiple activities, they must charge their times based on the time actually spent for each activity.

In both cases, the higher reimbursement rates and inflated time sheets had no effect in the amount of administrative funds that were reimbursed to TRAC from the grant because Shelter Plus Care regulations limited administrative charges to eight percent of the grant. The eight percent limit prevented TRAC from being fully reimbursed from the Shelter Plus Care Grant for either the \$17 per hour rate or for the time that the counselor actually spent on the grant. Although there did not appear to be any financial impact on Shelter Plus Care IV Grant funds, the existence of unsupported rates and inaccurate time sheets is a weakness that could effect other non-Shelter Plus Care grants administered by TRAC.

Key Duties were not Segregated at TRAC.

During an interview with TRAC's Finance Director, we determined that one of TRAC's bookkeepers had several incompatible duties, including: receiving invoices for landlord payments; preparing the checks; entering the information into the checking system; signing the checks with two rubber stamps; and mailing out the checks. The lack of separation of duties makes the grant funds more susceptible to misappropriation.

Title 24 CFR 85.20(b)(3) and Title 24 CFR 84.21(b)(3) requires, for the City and the Sponsor (Recipient), respectively, that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and recipients must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

TRAC has no written policies or procedures to prevent such incompatible duties, although the Finance Director said that she is in the process of creating them.

Recommendations:

We recommend HUD require the City to:

- 2A. Conduct periodic reconciliations of expenditures to draw downs and review support for the expenditures, including time sheets;
- 2B. Correct the improper draw down of \$84,638;
- 2C. Maintain documentation supporting reimbursement rates; and
- 2D. Require Sponsors to develop and implement written policies and procedures that prevent incompatible duties being assigned to staff members.

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Unsupported 2/</u>
1B	\$331,907

2/ Unsupported amounts are those whose eligibility or reasonableness cannot be clearly determined during the audit since they were not supported by adequate documentation or due to other circumstances. Under Federal cost principles, a cost must be adequately supported to be eligible.

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