
AUDIT REPORT



CITY OF DALLAS
CONTINUUM OF CARE PROGRAM

DALLAS, TEXAS

01-FW-251-1002

DECEMBER 13, 2000

OFFICE OF AUDIT, SOUTHWEST DISTRICT
FORT WORTH, TEXAS



Issue Date December 13, 2000

Audit Case Number 01-FW-251-1002

TO: Katie S. Worsham
Director
Community Planning and Development, 6AD

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

SUBJECT: City of Dallas
Continuum of Care Program
Dallas, Texas

As part of a nationwide review of HUD's Continuum of Care Program, we audited the City of Dallas' 1996 Shelter Plus Care grant and its 1997 Supportive Housing grant. Our attached report contains one finding.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

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

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Executive Summary

As a part of a nationwide review of HUD's Continuum of Care Program, we audited the City of Dallas' (City) 1996 Shelter Plus Care grant¹ and its 1997 Supportive Housing grant.² Our objectives were to determine whether the City: (1) implemented the grants in accordance with federal regulations and its grant agreements; (2) expended funds for eligible activities under federal regulations and applicable cost principles; (3) maintained accurate and adequate evidence of measurable results; (4) administered a sustainable program; and (5) expended funds timely.

City failed to implement its grants in compliance with grant agreements and federal regulations.

Our audit concluded the City failed to implement its grants in compliance with its grant agreements and federal regulations. Specifically, the City did not: (1) provide and document the matching supportive services required by the Shelter Plus Care grant; (2) expend its funds timely; (3) file accurate and consistent Annual Progress Reports; (4) include only eligible and supported costs in its grant drawdowns; (5) monitor the participants and their supportive service needs sufficiently; and (6) perform yearly Housing Quality Standards inspections for apartments inhabited 1 year or more. Furthermore, the City received \$53,977 and \$2,261 for ineligible and unsupported activities, respectively. The \$53,977 included \$28,264 of duplicated expenses, \$21,130 in expenses for ineligible participants, and \$4,583 in expenses incurred prior to the grant start date.

Recommendations.

Due to the seriousness of the problems, we recommend that HUD discontinue funding Continuum of Care grants to the City until the City can demonstrate that it can administer the funds appropriately. This includes providing HUD a comprehensive management plan and documentation detailing supportive services provided for all Shelter Plus Care grants. We also recommend that HUD require the City to repay \$53,977 for ineligible costs and either support or repay \$2,261 for unsupported costs.

We held an exit conference with the City on November 2, 2000, during which we presented our findings. The City provided its response to the audit report on November 3,

¹ Shelter Plus Care grant #TX21C96-0503.

² Supportive Housing grant #TX21B97-0906.

2000. We considered the responses in preparing our final report.

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Abbreviations

CFR	Code of Federal Regulations
HQS	Housing Quality Standards
HUD	U. S. Department of Housing and Urban Development
NOFA	Notice of Funding Availability
OIG	Office of Inspector General

Introduction

Background.

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized HUD's Continuum of Care Programs. HUD began implementing the Continuum of Care concept through the Notices of Funding Availability (NOFA) beginning in fiscal year 1994. The Continuum of Care concept includes three major competitively funded programs: (1) Supportive Housing; (2) Shelter Plus Care; and (3) Section 8 Moderate Rehabilitation for Single Room Occupancy Dwellings. We audited the City's 1996 Shelter Plus Care grant and 1997 Supportive Housing grant.

The City's offices are located at 1500 Marilla in downtown Dallas, Texas. The Day Resource Center is located at 901 South Ervay in Dallas, Texas. The City utilized the Day Resource Center to provide services to the homeless. The staff at the Day Resource Center included caseworkers from the City, Dallas Metrocare, and up until recently the Veterans Administration. The Day Resource Center offered counseling services as well as referral services to homeless individuals.

Shelter Plus Care.

Shelter Plus Care grants provide rental assistance to hard-to-serve homeless people with disabilities.³ A person with disabilities is defined as one who has a disability that:

- is expected to be of long-continued and indefinite duration;
- substantially impedes his or her ability to live independently; and
- is of such a nature that the disability could be improved by more suitable housing conditions.⁴

HUD required the City to match the rental assistance provided with an equal amount of supportive services.⁵ The supportive services must be appropriate to the needs of the population served. HUD allowed the City to use up to 8 percent of this grant amount to cover administrative costs.⁶ Since 1996, HUD has awarded the City over \$10 million in Shelter Plus Care grants:

³ The regulations define such disability as either severely mentally ill or chronic substance abusers.

⁴ 1996 Continuum of Care Application Instructions.

⁵ 24 CFR Part 582 Subpart A defines supportive services as assistance that meets the special needs of eligible persons. Such as health care, mental health treatment, alcohol and other substance abuse services, child care, case management, counseling, etc.

⁶ 24 CFR Part 582.105(e).

Grant Number	Award Amount	Start Date	Term
TX21C92-1051	\$ 2,626,560	10/1/96	120 mos.
TX21C93-1031	2,919,120	10/1/94	60 mos.
TX21C96-0503	1,488,600	7/1/97	60 mos.
TXC80-6003	3,480,960	10/1/99	60 mos./renewal
TX01-C906-001	350,400		
Total	\$ 10,865,640		

The City used tenant-based rental assistance to provide housing under its grant. Participants can select their apartments from complexes throughout the City.⁷ Participants must pay 30 percent of their adjusted gross income⁸ towards their rent. The Shelter Plus Care grant pays the remainder of the participant’s rent. If a participant has no income, the Shelter Plus Care grant will pay 100 percent of the rent.

Supportive Housing Program.

Supportive Housing grants provide rental assistance and supportive services to homeless individuals. According to the goals of the program, the combination of rental assistance and supportive services enables homeless people to transition their way into permanent housing. The City does not require its participants to pay any portion of the rent. HUD limits assistance under this program to 2 years. Since 1996, HUD has awarded the City over \$1.7 million in Supportive Housing grants:

Grant Number	Award Amount	Start Date	Term
TX21B95-0997	\$ 402,015	4/1/96	46 mos.
TX21B97-0906	749,670	10/1/98	36 mos.
TX01B906-002	294,000		24 mos.
TX01B906-015	299,824		23 mos.
Total	\$ 1,745,509		

Participants can select their apartments from complexes throughout the City.⁹ The City’s program provides 18 months of housing assistance along with job placement and counseling for single homeless individuals. The City charged its grant for the salaries of a caseworker and a job

⁷ The City maintains a listing of apartments.

⁸ As defined by 24 CFR 582 Subpart D.

⁹ The City maintains a listing of apartments.

coach. Both of these individuals work solely with the supportive housing participants.

The City's program required participants to conduct a documented daily job search and save a portion of their salary. The savings enable them to enter permanent housing when the program ends. Program staff conduct quarterly focus group meetings with clients to secure input and planning for future services or service modifications.

Audit Objectives, Scope, and Methodology.

Our objectives in auditing the City's Continuum of Care grants were to determine if the City: (1) implemented the grants in accordance with its applications; (2) expended funds for eligible activities under federal regulations and applicable cost principles; (3) maintained accurate and adequate evidence of measurable results; (4) has a sustainable program; and (5) expended funds timely.

To achieve the audit objectives we:

- Interviewed HUD staff;
- Reviewed documentation provided by HUD on City programs;
- Reviewed audited financial statements;
- Reviewed grant applications, agreements, and technical submissions;
- Interviewed City staff;
- Reviewed City's policies and procedures relating to homeless grants;
- Selected sample of transactions and program participants to determine if the City was following their own policies and procedures as well as federal regulations;
- Examined financial records for sample transactions;
- Examined participant records for sample participants; and
- Reviewed annual progress reports.

We selected a judgmental sample of transactions and program participants for the audit. The Shelter Plus Care sample included 6 drawdown periods. We selected June and July 1997 since this is when the program began. From then on we selected every 4th drawdown. We reviewed financial records for each of these drawdowns. We selected our participants from the selected drawdowns by including

every 10th participant from reports provided by the City. The Supportive Housing transactions sample included the drawdown covering July 1998 through February 1999 since this is when the program began. However, we only sampled transactions occurring in November and December, since this drawdown covered an 8 month period. We selected July 1999 through August 1999 since it appeared that this drawdown had been duplicated. We also selected September 1999. In general, we selected every other participant included on a list of participants for the Supportive Housing sample.

Audit Period and Sites.

We conducted the audit at City Hall and at the Day Resource Center. Throughout the audit we obtained computer-generated data from both HUD and the City. However, we did not perform any tests on the validity or reliability of such data except as noted in the findings and management controls. The audit period for the Shelter Plus Care grant generally covered June 1997 through December 1998. The audit period for the Supportive Housing grant generally covered July 1998 through January 2000. We extended the audit period as appropriate. We performed field work from February through May 2000 with additional field work performed in August 2000. We conducted our audit in accordance with generally accepted government auditing standards.

The City Failed to Implement Its Grants in Compliance with Federal Regulations and Grant Agreements

Overall, the City administered its homeless grants poorly. The City failed to comply with federal regulations and its grant agreements. Specifically, the City did not:

- Provide and document the matching supportive services required by the Shelter Plus Care grant;
- Expend its funds timely;
- File accurate and consistent Annual Progress Reports;
- Include only eligible and supported costs in grant drawdowns;
- Monitor the participants and their supportive service needs sufficiently; and
- Perform yearly Housing Quality Standards (HQS) inspections for apartments inhabited 1 year or more.

The City provided insufficient administrative guidance to city personnel responsible for the day-to-day operations of the grants. Further, the City did not implement sufficient management controls over grant administration to ensure compliance with grant requirements. Therefore, HUD cannot rely on the City to properly administer its homeless grants. HUD should discontinue funding Continuum of Care grants to the City until the City can demonstrate that it can administer the funds appropriately. This includes providing HUD a comprehensive management plan and a report detailing supportive services provided for all Shelter Plus Care grants. HUD should also require the City to repay the \$53,977 for ineligible activities and either support or repay the \$2,261 for unsupported activities.

Criteria.

Shelter Plus Care. In obtaining funds, the City agreed to follow all applicable federal regulations¹⁰ and the terms of its grant agreement including:

- Conducting an ongoing assessment of the rental assistance and supportive services required by the participants;
- Ensuring the provision of supportive services in an amount equal to the rental assistance provided by HUD;
- Being responsible for overall administration of the grant; and

¹⁰ Subtitle F of Title IV of the Stewart B. McKinney Homeless Assistance Act and also 24 CFR 582.

- Complying with other terms and conditions, including record keeping and reports.

Supportive Housing. In obtaining funds, the City agreed to comply with all applicable federal regulations¹¹ and the terms of its grant agreement including:

- Providing assistance to the participants in securing and retaining employment and/or training;
- Ensuring that participants conducted daily job search with verified results; and
- Requiring participants to set up savings accounts.

The City failed to provide and document supportive services.

For its Shelter Plus Care grant, the City failed to provide the required supportive services to its participants. Further, the City did not adequately document those supportive services it did provide to the participants. After several requests, the City supplied documentation to support \$209,215 in supportive services.¹² As of November 30, 1999, HUD provided the City with \$460,195 in rental assistance or \$250,980 more than the City matched in supportive services.

HUD required the City to monitor the supportive services and ensure the participants are receiving the appropriate supportive services, even if it must fund the services themselves.¹³ HUD also required the City to conduct an ongoing assessment of the supportive services needed by the participants.¹⁴ The City did not maintain documentation on the supportive services provided (either aggregate or per participant); therefore, it could not provide an ongoing assessment of the needs of the participants or the amount of services provided.

In a 1999 monitoring review, HUD noted similar problems with the City's 1994 Shelter Plus Care grant. Its monitoring review found the City could not provide documentation to verify that it matched the rental assistance received with supportive services. The City's response stated that it had documented and verified a total of

¹¹ Subtitle C of Title IV of the Stewart B. McKinney Homeless Assistance Act, 24 CFR 583, and also the Notice of Funding Availability 62 FR 17024.

¹² The City should have had this information readily available

¹³ 24 CFR 582.110.

¹⁴ 24 CFR 582.300(b).

\$1,946,371 in supportive services for this grant. However, HUD eventually determined the City provided \$1,798,911 as a supportive service match. For this grant, HUD provided \$2,919,120 in rental assistance or \$1,120,209 more than the required match by the City.

The local HUD field office interprets the McKinney Act as not allowing it to require the City to repay HUD the \$1,120,209. Its interpretation is that HUD could only recapture “unexpended housing assistance.” Therefore, its monitoring review recommended the City “over match” existing Shelter Plus Care grants to make up for the supportive services the City did not provide for the 1994 grant. However, this does rectify the fact that the participants under the 1994 grant did not receive the necessary supportive services. HUD should ensure that the City provides the required supportive services to those participants under the specific grant.

Provision of supportive services is the cornerstone of the Shelter Plus Care Program. The program targets hard-to-serve homeless persons with disabilities¹⁵. The disabilities of these individuals substantially impede their ability to live independently. However, the City placed the individuals in apartments throughout the City and did not provide the required supportive services. Without the required match, the City not only violated its grant agreements but also hindered the success of any participants and the program. Since the participants did not receive sufficient supportive services, this program was nothing more than a temporary relief from homelessness.

The City did not expend funds in a timely manner.

The City did not budget or administer grant funds to ensure the timely expenditure of the funds. The City performed neither spending projections nor any other analysis for either of the grants audited. As of November 1999, the City was behind projected spending by \$259,295 in its Shelter Plus Care grant. As of September 1999, the City was behind projections of spending in its Supportive Housing grant by \$39,572.

¹⁵ 24 CFR 582.1.

Shelter Plus Care - As of November 1999, the City was behind projected spending by \$259,295 in its 1996 Shelter Plus Care grant. In an effort to expend the funds from a prior grant, the City transferred 30 of its 35 participants from this grant.¹⁶ This was nothing more than a paper transaction to help the City to expend its prior grant. Furthermore, during the first 19 months of the grant, the City failed to serve the required 50 participants. The City actually served the following number of participants during the period:

1997		1998	
Month	Participants	Month	Participants
June	13	January	34
July	17	February	38
August	19	March	35
September	21	April	5
October	23	May	5
November	24	June	5
December	28	July	5
		August	9
		September	19
		October	20
		November	25
		December	24

The City had several waiting lists to get into the program. Each waiting list could have as many as a dozen individuals at one time. The City had no excuse for not spending its funds timely. The City should analyze grant funds on a continual basis to ensure that it spends funds timely and that it serves the required number of participants.

Supportive Housing - The City will likely expend the \$39,572 difference between its projected and actual expenditures, because it has not drawn down any of its administrative funds. The City was awarded \$35,270 for administrative costs associated with this grant. However, as of September 1999, the City had not drawn down any administrative costs from the grant. The City claimed that HUD instructed them that no administrative costs could be drawn down until the City had the required number of participants.¹⁷ The City had 26 participants as of January 1999, in spite of this however, it had not drawn down any

¹⁶ HUD approved the transfer.

¹⁷ This grant was for 25 participants.

administrative funds. The City should not blame HUD for its lack of diligence in administering its grants.

The City submitted inaccurate and inconsistent Annual Progress Reports.

The City did not collect and maintain documentation on participants to support progress reported to HUD. HUD required the City to submit Annual Progress Reports showing the progress the City made toward its goals during the year and setting the goals for the upcoming year. Without participant information, the City could not submit accurate and consistent Annual Progress Reports. According to City officials, in order to complete the Annual Progress Report, the City inspected each participant's file to determine if the participant met the City's goals. However, it did not maintain any documentation of its review of the files. Therefore, no one could confirm the data without inspecting each file again.

Furthermore, the City's Annual Progress Reports included mathematical errors, inconsistency between goals set and the progress reported, and incorrect calculation of progress achieved. For example, the Annual Progress Report reflects that the Shelter Plus Care grant had 76 participants during the period July 1, 1998, through June 30, 1999. However, a list provided by the City reflected only 74 participants.

As an example of inconsistency, the City's year one Annual Progress Report,¹⁸ stated that in year two "50% of those in vocational programs will demonstrate a documented increase in their vocational skill levels." However, in its year two Annual Progress Report,¹⁹ the City reported "this goal has been exceeded in that 30% of the clients completed the Compensated Work Therapy program and Dallas Community College program requirements for graduation." In addition to the apparent contradiction of the goal set and progress achieved, the City did not include individuals who dropped out of the program in the calculation of progress achieved. This practice inflates the progress reported on the Annual Progress Reports.

The Annual Progress Reports filed by the City do not reflect a true picture of the program and the progress achieved. In order to accurately report its progress, the City

¹⁸ July 1, 1997, through June 30, 1998.

¹⁹ July 1, 1998, through June 30, 1999.

must collect and maintain information on each participant. The City's practice of inspecting each participant file for the Annual Progress Report is not only time consuming and inefficient but reflects poorly on the City's administration and implementation of its grants. Essentially, the City's record keeping for tracking and documenting the progress of the participants and its grants is nonexistent. It seems the City haphazardly placed numbers on the reports and submitted them. The City should collect and utilize participant information in order to monitor the success of its programs. As prepared, the City's reports are worthless as an analysis tool or as a measure of progress.

The City included \$53,977 in ineligible and \$2,261 in unsupported costs in grant drawdowns.

The City has drawn down funds for ineligible and unsupported costs totaling \$53,977 and \$2,261, respectively. The City incorrectly received funds for a duplicated drawdown, expenditures incurred prior to the grant start date, and expenses for ineligible participants. In one drawdown reviewed, the City did not have support for \$2,261.

Duplicated Drawdown - The City included the same leasing and utility costs in two drawdowns from its Supportive Housing grant. The two drawdowns included:

09/24/99 Drawdown	Leasing	Utilities	Co Payments	Admin	Supportive Services	Total Drawdown
July '99	\$ 14,451.00	\$ 537.00	\$ -233.00	\$ 1,180.00		
August '99	11,028.00	2,481.00		1,081.00		
Subtotal	\$ 25,479.00	\$ 3,018.00	\$ -233.00	\$ 2,261.00		\$ 30,525.00

10/13/99 Drawdown	Leasing	Utilities	Co Payments	Admin	Supportive Services	Total Drawdown
July '99	\$ 14,451.00	\$ 537.00			\$ 9,874.00	
August '99	11,028.00	2,481.00				
Subtotal	\$ 25,479.00	\$ 3,018.00			\$ 9,874.00	\$ 38,371.00

Duplicate Charges	\$ 25,479.00	\$ 3,018.00	\$ -233.00			\$ 28,264.00
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The City should repay its grant \$28,264 for the duplicate charges. The City could not support the \$2,261 in administrative costs included in the September drawdown. The City should either provide support for this amount or repay its grant the \$2,261.

Expenses incurred prior to grant start date - Under the Supportive Housing grant, the City incurred \$4,583²⁰ in expenses prior to the grant start date.²¹ HUD prohibits the City from expending funds until the grant has been executed. The City offered no explanation for incurring expenditures prior to the grant start date and should repay its grant.

Ineligible Participants - The City paid \$21,130 in rental assistance for six ineligible participants. The City did not properly document homelessness for these participants. During a start-up conference held for each grant, HUD instructs grantees on the requirements for documentation of homelessness. However, the City could not say who attended the start-up conferences, nor could it verify whether the information was disseminated to the individuals who worked on the grant.

The City provided insufficient monitoring of participants.

The City did not enforce program requirements or provide adequate monitoring of participants. In one instance, the City's Shelter Plus Care grant paid rent on an apartment that the participant had vacated at least 7 months earlier.²² The City had documentation that should have alerted it to this condition. Specifically, the utility bills for this apartment had gone as low as \$5 a month. The City can pay rental assistance for only 1 month after a participant vacates the apartment.²³

Contrary to the Supportive Housing grant requirements, the City did not require participants to perform a daily job search or maintain a savings account. Of the 19 files reviewed, none had a daily job search and only 3 files had any evidence of a savings account. Furthermore, the audit noted instances in which the participant clearly violated program requirements and the City took nugatory action.

²⁰ This was included in their initial drawdown of \$85,899, and includes expenses incurred in July and August 1998.

²¹ The grant started on September 1, 1998.

²² Also, the City did not document that this individual was homeless.

²³ 24 CFR 582.105(d)(1).

For instance, one participant was evicted from her apartment for alleged drug trafficking and unauthorized tenants. She also repeatedly missed appointments with her case worker. Instead of removing the participant from the program, the City allowed her to sign another agreement. After entering the new apartment, the participant continued to have an unauthorized guest. It got so bad that the apartment complex was forced to change the locks to remove the unauthorized guest. It appears that during the 1½ years that she participated in the program, she did not have a steady job much less maintain a savings account. During the audit period, the participant requested that the City remove her from the program. It is unknown whether the City continued paying her rent.

According to City personnel, they have attempted to terminate participants for noncompliance with program requirements. However, management has told them to terminate “only in the most extreme circumstances.” City personnel believed that they went the extra mile; however, they acknowledged that going the extra mile usually did not work. The City did not have adequate procedures to ensure that the participants followed program requirements or faced consequences including terminating them from the program.

The grant provided participants with 2 years of rental assistance to enable them to make the transition from homeless to independent living. While in the program, the grant required participants to obtain a steady job and save money. With no enforcement of the program requirements, not only did the City violate its grant agreement, but it also hindered the success of the participants. The City provided no incentive for participants to strive to become self-sufficient. Therefore, at the end of the 2-year period, the participants gained little to nothing.

If the City did not intend to enforce the requirements of the grant, the City and not HUD should be paying the rents for the participants. The City should develop and implement the necessary procedures to ensure that participants follow program requirements.

The City did not perform yearly Housing Quality Standards (HQS) inspections.

Contrary to Shelter Plus Care program requirements, the City did not perform yearly HQS inspections of the apartments. The City's Housing Inspector explained that apartment complexes often refuse to allow him into the apartments. HUD cannot be sure that the apartments included in the City programs meet the HQS.

Auditee Comments

The City's revised response is included as Appendix B. We did not include as part of the City's response any confidential information.

The City concurred that it did not implement its grants in compliance with grant agreements and federal regulations. However, the City disagreed that it included ineligible participants in grant drawdowns or drew down funds sooner than was permitted by regulations. The City's response included actions that it has taken to mitigate the severity of the problems detected during the audit.

The City believes its files had sufficient documentation to verify the six individuals identified in the audit met the eligibility requirements. The City stated, "The Department used as its documentation, the Participant Outcome Monitoring System (POMS) which was previously recommended by local HUD staff, to document the homeless condition of our clients." Therefore, the City believes it appropriately paid \$21,130 in rental assistance on behalf of these participants.

The City maintained the eligibility of the \$4,583 incurred prior to the grant start date. According to the City's response:

"...the City was notified on July 14, 1998 of the award of the Supportive Housing funding. The notice informed the City no funds could be disbursed until after the grant was fully executed. The City assumed all eligible expenses incurred from the time of notification could be reimbursed once the grant was executed. Review of the applicable regulations does not prohibit this action."

With respect to the Housing Quality Standards inspections, the City acknowledged that it did not perform all the

inspections. However, this was due to a lack of cooperation from apartment managers. The City cited actions it has taken to correct this problem.

Included in the City's response was a management plan intended to address the concerns of the OIG and HUD. The City believes this management plan combined with recent changes in management and changes in operations will result in a stronger administration of its programs.

OIG Evaluation of
Comments

The City's response, specifically the attached management plan, shows a willingness to correct the problems noted in the finding. However, in order to demonstrate its ability to administer its grants appropriately, the City must implement these changes and evaluate the outcomes. As such, we did not change our recommendation that HUD discontinue funding until the City can administer the grants appropriately.

We take exception to the City's statement, "In many instances program staff responsible for implementing the grants have in fact met the requirements of the grants with one major exception – they did not adequately document their activities." The City's statement appears to trivialize the problems and conditions noted in the finding as simply a lack of documentation. The City did indeed lack documentation. However, the lack of documentation is only a symptom of the City's inability to administer its Continuum of Care Programs effectively. For instance, the lack of supportive services documentation only exposes the larger problem of the City not addressing the needs of its participants or demonstrating that the participants received the care needed to assist them in living as independently as possible.

The City could not support its assertion that the six individuals cited in the finding were eligible participants. As stated in the finding, HUD provided the City specific instructions on documenting homelessness and the City did not follow them. Furthermore, the City could not verify that it trained City staff on administering and operating these grants. Several of the individuals cited in the finding had been living with family or friends prior to entering the

program. Irrespective of the documentation maintained, these individuals were not eligible to participate under these grants.

In its response the City included a letter from an apartment manager regarding the participant who had vacated his apartment at least 7 months prior to termination of rental assistance. However, this does not agree with documentation included in the participant file. No participant in these programs should go 7 months without contact. Without this contact, the City does not know if it is paying rent on a vacant apartment, but also whether the participant is making progress under this program.

The City's assumption that expenses incurred prior to the grant start date were eligible expenses is incorrect. Regulations clearly define the effective date as the date HUD executes the grant.

We revised our report as necessary.

Recommendations

We recommend HUD to:

- 1A. Discontinue funding Continuum of Care grants for the City until such time as the City demonstrates its ability to administer the grants appropriately. This includes providing HUD a comprehensive management plan in the areas of:
 - Supportive services;
 - Personnel training;
 - Oversight responsibility;
 - Participant monitoring;
 - Draw down procedures and review;
 - Expenditures of grant funds along with projections; and
 - Annual Progress Report preparation and review.
- 1B. Require the City to provide a report detailing documented supportive services provided for all Shelter Plus Care grants. The report should reflect:
 - Supportive Service providers utilized;

- Types of services provided;
- Dollar value of those services;
- Steps taken to verify documentation; and
- How the supportive services address the particular needs of the Shelter Plus Care participants.

1C. Require the City to reimburse HUD for \$53,977 for ineligible expenditures.

1D. Require the City to either support or reimburse HUD \$2,261 in unsupported costs.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

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

- eligibility of program activities and participants;
- measurement and documentation of program results;
- monitoring of drawdowns;
- timely expenditure of grant funds;
- monitoring of supportive services;
- monitoring of program participants; and
- oversight responsibility and overall grant administration.

We evaluated all of the relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. As discussed in our finding, we believe the following items are significant weaknesses in that the City lacks sufficient controls to ensure:

- eligibility of participants;
- proper measurement and documentation of program results;
- timely monitoring of grant drawdowns;
- timely expenditure of grant funds;
- monitoring and documenting of supportive services;
- monitoring of program participants to ensure adherence to program rules and guidelines; and

- overall grant administration in accordance with federal regulations and grant agreements.

Follow-Up on Prior Audits

This is the first audit by our office of the City of Dallas' Continuum of Care grants.

We reviewed the 1997 and 1998 audited financial statements for the City of Dallas. The audit contained no findings regarding the Continuum of Care grants.

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Schedule of Questioned Costs

<u>Issue</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> ^{1/}	<u>Unsupported</u> ^{2/}
1C Ineligible expenditures	\$53,977	
1D Unsupported costs	_____	<u>\$2,261</u>
Totals	<u>\$53,977</u>	<u>\$2,261</u>

¹ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or federal, state, or local policies or regulations.

² Unsupported costs are costs questioned by the auditor because the eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of Departmental policies and procedures.

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Auditee Comments



CITY OF DALLAS

November 3, 2000

Mr. D. Michael Beard, District Inspector General
U.S. Department of Housing and Urban Development
Southwest District Office of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, TX 76102

Dear Mr. Beard:

At my direction, staff of the Environmental and Health Services Department have conducted an intensive follow up review of your draft audit report of the Shelter Plus Care and Supportive Housing programs. This review followed the exit conference conducted by Ms. Laura Cantu and Mr. William Nixon. As a result of that follow up review, we submit the following and enclosed as evidence of our commitment to positive administration of homeless programs which serve the most vulnerable of our population.

First and foremost, you should be advised that I have made several staffing changes and assignments which should result in stronger administration of these programs. These changes are the latest in a series of significant management changes in the City of Dallas executive team. As you are aware, we are operating under the aggressive leadership of City Manager Teodoro Benavides. Mr. Benavides appointed Ms. Jacqueline L. Lee to serve as Assistant City Manager whose portfolio includes the Environmental and Health Services Department. Most recently I was named Director of this department (May 31, 2000) and I named Karen Bradford as my Assistant Director (September 18, 2000). Ms. Bradford and I have worked with HUD programs in the City of Dallas and have strong track records of sound management and effective program oversight.

On the heels of these executive changes is the decision to designate a seasoned employee who has a strong sense of the expectations of our homeless programs, to assume management of them. I recently named Ms. Karen Boudreaux to serve as the City's staff liaison to the Downtown Homeless Consortium where she has been quite successful. She is being promoted to the position of manager of all homeless programs and will have an assistant in the person of Ms. Boadecia White, who will provide strong backup support to the Consortium and on other homeless initiatives as needed. The enclosed organization chart provides a complete summary of the program's new structure, which includes several additional modifications.

I believe these changes and the strengthened Management Plan which is also enclosed, will serve the City well in improved operations of our homeless programs.

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Regarding the conclusions of your audit, I concur – with comment – with your assessment that the City did not implement the grants in compliance with grant agreements and federal regulations. In many instances program staff responsible for implementing the grants have in fact met the requirements of the grants with one major exception – they did not adequately document their activities. I have included with this package, highlights from various case files, of successful outcomes for clients who participated in this program.

The lack of documentation is especially critical in your determination that we failed to match all Shelter Plus Care grants, as required. You will find in our Management Plan, a strategy for insuring against this problem in the future. In addition, we are continuing to work on the corrective action plans which were recommended by HUD after their last monitoring review. This is a serious deficiency and will be addressed with maximum attention at all levels.

I have highlighted these issues for your quick reference however I encourage you to evaluate our Management Plan which I believe you will find to be completely responsive to your suggestions and findings. However I am compelled to respectfully request your reconsideration of the draft report recommendation for discontinuation of funding. I believe the enclosed Management Plan, which I authored after spending a full day in discussion with all program staff, provides strategies for correcting all noted deficiencies. This effort on my part served to satisfy me that we have thoroughly considered each of your findings. Additionally I am 100% satisfied that the staff understand my expectations and that they are capable of meeting them. The expectations which are outlined, will be incorporated into all staff performance plans.

This commitment of time as well as the change in program management and the systems in place in the Management Plan demonstrate that the City can and will manage these programs and funds appropriately.

I have enclosed the following documents with this package: response to each finding; Management Plan; revised organization chart; and success stories from Shelter Plus Care and Supportive Housing files.

I look forward to receipt of your final report. Please feel free to contact me if you have questions or would like clarification any of the points contained herein.

Sincerely,



Mary K. Vaughn, Director
Environmental and Health Services Department

Enclosures

c: Jacqueline L. Lee, Assistant City Manager
Karen D. Bradford, Assistant Director, Environmental and Health Services Department

**City of Dallas Environmental and Health Services Department
Response to Draft Audit
Shelter Plus Care and Support Housing Grant Programs
November 3, 2000**

The City failed to provide and document supportive services.

The Environmental and Health Services Department concurs with comment. We believe we provided more supportive services than we can document, which has the effect of not providing the services. However, we have a strong Management Plan which includes a stronger commitment to providing and documenting supportive services. Included in this plan are strategies to identify a variety of new supportive services resources.

The City submitted inaccurate and inconsistent Annual Progress Reports.

The Environmental and Health Services Department concurs. Revised APRs were submitted to HUD on September 22, 2000. The Management Report provides a detailed plan for preparing accurate reports and for establishing schedules and responsibilities for meeting required report deadlines.

The City included \$53,977 in ineligible and \$2,261 in unsupported costs in grant drawdowns.

During our November 2, 2000 meeting, we agreed that the \$2,261 is a part of the \$53,977 and is therefore not addressed separately herein. However, as described in detail in our response to the recommendation on pages 2 and 3 of this document, we do not believe these costs are ineligible. The portion which represented a duplicate drawdown (\$30,525.43) will be resolved by reducing a future drawdown. The balance represents payments made for legitimate expenses, as described on page 3.

The City provided insufficient monitoring of participants.

The Environmental and Health Services Department concurs that participant monitoring expectations were not clear, nor were monitoring activities fully documented. However, the example described in the draft audit has been researched, and we have enclosed evidence from the Aspen-Chase apartments that the client was in residence for 5 of the 7 months in question. The City will take action to recover the rent payments for two months the client was not in residence. The issue of client monitoring has been addressed in the Management Plan which describes the frequency and documentation requirements for case manager client monitoring activity.

The City did not perform yearly Housing Quality Standards (HQS) inspections.
The Environmental and Health Services Department acknowledges that there were inspections which were not performed because of lack of cooperation from apartment managers. Several steps have been taken to correct this problem. Apartment managers have been sent letters confirming that the inspections are key to their receipt of rent payments. All past due inspections were caught up as of October 31, 2000. The strategies identified in the Management Plan will insure that this problem does not reoccur.

The City did not ensure that rents paid for assisted units were the same as for the unassisted.
The Environmental and Health Services Department does not concur. We believe we have verified that the program tenant rents are consistent with those charged for non-program participants. However, we have identified a process in our Management Plan which will strengthen our oversight of the rent payments made on behalf of our participants.

Recommendations

- 1A. Discontinue funding Continuum of Care grants for the City until such time as the City can administer the grants appropriately. This includes providing HUD a comprehensive management plan.*
The City believes that the response by the current management of the Environmental and Health Services Department, demonstrates our ability to administer the grants appropriately. We do not believe discontinuation of the funding serves a positive purpose. The City of Dallas has a history of successful administration of Federal, State and local funds; our current fiscal year budget exceeds \$1.8B. The City's overall track record combined with the significantly strengthened Management Plans for the Environmental and Health Services Department, reflect the City's ability and commitment to administer the grants appropriately.
- 1B. Require the City to provide a report detailing documented supportive services provided for all Shelter Plus Care grants.*
As reflected in our September 22 response to HUD's monitoring visit report, we are actively working to provide a detailed report on additional documented supportive services for all grants. Our Management Plan includes steps, strategies and responsibilities for insuring that all programs continue to be properly matched and documented.
- 1C. Require the City to reimburse HUD for \$53,977 for ineligible expenditures.*
The Environmental and Health Services Department concurs that \$30,525.43 of the questioned amount, was a duplicate drawdown. We will reduce the next subsequent draw by this amount and we will also reimburse HUD for any interest earned on this amount. The enclosed Management Plan provides a process which will avoid duplicate drawdowns in the future.

City of Dallas Environmental and Health Services Department
Response to Draft Audit – Shelter Plus Care/Supportive Housing
November 3, 2000
Page 2 of 3

The Department does not concur with the ineligible costs of \$4,582.61 for expenses incurred prior to the full execution of the grant. The City was notified on July 14, 1998 of the award of the Supportive Housing funding. The notice informed the City no funds could be disbursed until after the grant was fully executed. The City assumed all eligible expenses incurred from the time of notification could be reimbursed once the grant was executed. Review of the applicable regulations does not prohibit this action.

The Department does not concur that the \$21,130 in rental assistance for seven participants was eligible. The basis for this finding was a lack of documentation of the participants' homelessness. The Department used as its documentation, the Participant Outcome Monitoring System (POMS) which was previously recommended by local HUD staff, to document the homeless condition of our clients. While that document has its limitations, we considered it to be valid given its endorsement by local HUD officials. This issue was discussed during the November 2, 2000 exit conference, however and we have now added the homeless statement which was recommended during that conference, for future documentation. However, we do not believe reimbursement of funds is appropriate in that the files did contain documentation.

- 1D. Require the City to either support or reimburse HUD \$2,261 in unsupported costs. With HUD OIG concurrence on November 2, 2000, these funds are a part of funds in 1C above and are not considered separately.*

Management Controls

All issues identified as management control weaknesses have been addressed in the enclosed Management Plan.

**CITY OF DALLAS
HOMELESS GRANT MANAGEMENT PLAN**

**City of Dallas Environmental and Health Services Department
Management Plan
Shelter Plus Care and Supportive Housing Programs**

Issue Area	Management Plan	Timeline	Assignment
Supportive Services	<p>Supportive services are provided by City staff (a) and community agencies (b).</p> <p>(a) City staff (case managers) will continue to provide counseling, referral, and case management services to clients. Time spent on this activity will be recorded as supportive services</p>	<p>A form for tracking supportive services will be developed, and Case managers will be trained on the form by November 30, 2000. The new form will be implemented by December 1, 2000.</p>	Administrative Manager
	<p>(b) 1. A supportive services agency network will be identified and formal agreements between the agencies will be executed. The agreements will be signed by the Assistant Director.</p> <p>(b) 2. The network will be formalized with quarterly meetings which provide an opportunity for case management staffings, to reinforce relationships, and address issues of mutual concern.</p> <p>(b) 3. Develop a formal referral mechanism.</p> <p>(b) 4. Develop a reporting/valuation mechanism which is date-specific</p>	<p>1. By January, 2001</p> <p>2. First meeting in January, 2001</p> <p>3. December, 2000</p> <p>4. December, 2000</p>	<p>1. Homeless Program Manager</p> <p>2. Homeless Program Manager</p> <p>3. Senior Case Manager</p> <p>4. Senior Case Manager</p>

Issue Area	Management Plan	Timeline	Assignment
Timely expenditure of funds	<p>There are 2 strategies for insuring timely expenditure of funds.</p> <ol style="list-style-type: none"> 1. Insure that allowable administrative costs are charged to the grant on a monthly basis. 2. Increase the participant caseload by: <ul style="list-style-type: none"> - contact (and document) at least 5 new agencies to invite them to participate in the program 3. Track the level of supportive housing match by reviewing monthly reports of supportive housing match funds 	<ol style="list-style-type: none"> 1. Effective immediately 2. Effective immediately 3. Effective immediately 	<ol style="list-style-type: none"> 1. Administrative Manager 2. Each Case Manager – reviewed monthly by Senior Case Manager 3. Senior Case Manager
Annual Progress Reports (APR)	<p>A stronger report system will be implemented with the following steps:</p> <ol style="list-style-type: none"> 1. Prepare a calendar of due dates for all APRs in Department programs 2. Distribute APR calendars to all appropriate program managers 3. Program managers will prepare a timeline for completion of the APR by the due date which includes: staff responsibilities and interim report due dates. The timeline must be approved by the Assistant Director. 	<ol style="list-style-type: none"> 1. November, 2000 2. November, 2000 3. 15 days after receipt of calendar 	<ol style="list-style-type: none"> 1. Assistant Director 2. Assistant Director 3. Homeless Program Manager/Asst Director

Issue Area	Management Plan	Timeline	Assignment
Annual Progress Report (cont'd)	<p>The City's new MIS system will automate data collection. The system generates standard database reports (see attached sample).</p> <p>Program will be available to all staff upon purchase of additional computers. Data entry will be responsibility of Case Managers.</p> <p>Interim plans for internal users without computer equipment and external contractors without access to the network, include development of hard copy documentation in compatible format.</p> <p>Monthly reports to be generated and reviewed by staff.</p>	<p>Began October 2, 2000</p> <p>Computer purchases completed by May, 2001</p> <p>Format to be developed by December, 2000</p> <p>November, 2000</p>	<p>Managed by Administrative Manager</p> <p>Assistant Director</p> <p>Homeless Program Manager</p> <p>Homeless Program Manager/Administrative Manager</p>
Drawdown Accuracy	<p>The City will reinforce the need to prepare all drawdown requests with accuracy.</p> <ol style="list-style-type: none"> 1. This function will be centralized in one staff person who will be responsible for Shelter Plus Care and Supportive Housing draws. 2. Drawdowns will be processed and monitored with segregation of duties 3. Internal audits will be conducted on drawdowns quarterly 	<ol style="list-style-type: none"> 1. December, 2000 2. December, 2000 3. January, 2001 	<ol style="list-style-type: none"> 1. Homeless Program Manager 2. Assistant Director 3. Assistant Director

Issue Area	Management Plan	Timeline	Assignment
<p>Reinforce/Redefine Case Manager Roles</p>	<p>The Case Management process will be strengthened by the following.</p> <ol style="list-style-type: none"> 1. Establish a minimum requirement for monthly contacts for each Case Manager for each client. Contacts may be in person at home, job or office, by phone or mail. 2. If clients cannot be contacted Case Managers must document attempts to contact, determine if failure to contact violates case management plans, and take appropriate action including termination. 3. Establish documentation format for all contacts. A form has been developed which can be completed on the computer or on paper. The format will be shared with all supportive housing agencies. 4. Develop monitoring system for all subcontractor client contacts to insure compliance with all program requirements. Expectations will be explained and monitored. 5. Clarify procedures for file documentation. 6. Case Managers will review treatment plans biannually, with client, agency and Case Manager. 7. Monthly meetings to monitor Case Manager adherence to guidelines. 	<ol style="list-style-type: none"> 1. Effective immediately 2. Effective immediately 3. Complete. See attached copy. Will be shared with agencies by January, 2001 4. December, 2000 5. December, 2000 6. Ongoing 7. November, 2000 	<ol style="list-style-type: none"> 1. Homeless Program Manager 2. Homeless Program Manager 3. Senior Case Manager 4. Senior Case Manager 5. Senior Case Manager 6. Case Manager 7. Senior Case Manager

Issue Area	Management Plan	Timeline	Assignment
Savings Accounts	<p>The Supportive Housing Program will strengthen the requirement for clients to open savings accounts. There will be 2 specific strategies implemented.</p> <ol style="list-style-type: none"> To get current clients' savings accounts established, Case Managers will again explain the requirement to current clients. They will be asked to sign an agreement to establish and maintain an account. A deadline will be established and the Case Manager will follow up one week before the deadline to remind the client to open the account and offer assistance. If they fail to open the account this will be evaluated as a violation of the treatment plan and will be handled accordingly, including termination. Future clients will have this requirement reinforced by placing their initials at each point of the intake agreement. Deadlines will be reinforced as above, and a reminder will also be given. Failure to comply will be handled as above. 	<ol style="list-style-type: none"> December, 2000 December, 2000 	<ol style="list-style-type: none"> Senior Case Manager/Case Managers Senior Case Manager/Case Managers

Issue Area	Management Plan	Timeline	Assignment
HQS Inspections	<p>The City supports the need to insure that clients' housing meets Housing Quality Standards and has established the following means for conducting and documenting entrance, exit and annual inspections.</p> <ol style="list-style-type: none"> 1. All currently due HQS inspections have been performed. 2. All apartment managers will be provided an addendum to attach to client lease agreements which confirms that access for inspections will be allowed. 3. The MIS system will generate a monthly listing of all locations which have to be inspected. 	<ol style="list-style-type: none"> 1. October 31, 2000 2. Ongoing 3. December, 2000 	<ol style="list-style-type: none"> 1. Administrative Manager 2. Administrative Manger 3. Administrative Manager/Housing Inspector
Rent Reasonableness	<p>The City has established the following procedures for insuring that rents paid by participants do not exceed those charged to non-participants in the same apartment complex for the same type of apartment.</p> <ol style="list-style-type: none"> 1. At program entry, the apartment rent list will be placed in the client's file to confirm that their rent is that which is quoted on the sheet for their unit size, etc. 2. During the annual HQS inspection, the inspector will obtain a current rent sheet and forward it to the Case Manager with a copy of the inspection report, for the same purpose. These documents will be placed in the file. Discrepancies will be forwarded to Senior Case Manager. 	<ol style="list-style-type: none"> 1. Ongoing 2. Annually 	<ol style="list-style-type: none"> 1. Case Manager 2. Housing Inspector/Case Manager

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