



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
Pacific/Hawaii District  
450 Golden Gate Avenue, Box 36003  
San Francisco, California 94102-3448

Audit Memorandum  
2001-SF-1804

**May 9, 2001**

**MEMORANDUM TO:** William Barth  
Director, Office of Community Planning and Development, 9DD

**FROM:** //SIGNED//  
Mimi Y. Lee  
District Inspector General for Audit, 9AGA

**SUBJECT:** County of Orange  
Mercy House Coalition  
Supportive Housing Program Grant (CA16B802-006)  
Santa Ana, California

As part of a nationwide review of HUD's Continuum of Care Program, we audited the subject grant awarded to the County of Orange, Housing and Community Development Department (Orange County) for the 1998 Supportive Housing Program (SHP) operated by the Mercy House Coalition (Coalition). The Coalition carried out all grant activities as a sub-grantee of Orange County. The purpose of our audit was to determine whether Orange County and the Coalition operated the Continuum of Care SHP in accordance with the approved application as well as HUD and other federal requirements.

### **SUMMARY**

We believe both Orange County and the Coalition have been dedicated and responsive to the needs of the homeless population in Orange County and have worked hard to adhere to SHP requirements, as they understood them. However, we concluded that Orange County and the Coalition did not operate some aspects of the SHP in accordance with the approved application and other federal requirements. Specifically, we identified instances where the Coalition admitted ineligible participants and participants whose eligibility was not adequately documented, did not accomplish some program goals or did not maintain adequate evidence of goal accomplishment, and failed to comply with HUD requirements pertaining to client tracking, habitability inspections, and rent reasonableness determinations. Also, both Orange County and the Coalition charged unsupported and ineligible salary costs to the grant.

We believe these problems occurred because Orange County and the Coalition did not understand the applicable Federal or contractual requirements. As a result, Orange County and the Coalition have spent at least \$294,987 (\$112,524 + \$182,463) of HUD funds on costs that did not benefit or may not have benefited the intended program participants.

As shown in the following chart, the Coalition incurred most of the costs in question. Nevertheless, according to its grant agreement with HUD, Orange County agreed “to comply with all requirements of its grant agreements and to accept responsibility for such compliance by any entities to which it makes grant funds available.” Our recommendations for corrective actions and for reimbursement to HUD are therefore directed to Orange County.

<i>Description of Expenditure</i>	<i>Ineligible</i>	<i>Unsupported</i>
<b>Orange County</b>		
Administration Salaries	\$3,958	\$27,629
<b>Mercy House Coalition</b>		
Supportive Service Salaries	\$56,236	\$148,913
Salary Advance	40,072	
Participant Eligibility	12,258	5,921
Coalition Totals	\$108,566	\$154,834
<b>Combined Totals</b>	<b>\$112,524</b>	<b>\$182,463</b>

## BACKGROUND

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program (SHP). The program is designed to promote the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible. Eligible activities include:

- Transitional housing,
- Permanent housing for homeless persons with disabilities,
- Innovative housing that meets the immediate and long-term needs of homeless persons, and
- Supportive services for homeless persons not provided in conjunction with supportive housing.

The Housing and Community Development Department for the County of Orange is the primary administrative agency for distributing government funding for Supportive Housing Programs in Orange County, California. The Mercy House Coalition is a collaboration between four nonprofit organizations and corporations with the objective of providing much needed housing and supportive services for a

variety of high priority homeless populations. The Coalition, which reportedly represents the oldest coalition of homeless service providers in Orange County, is comprised of Mercy House Transitional Living Centers (Lead Agency), FISH-Harbor Area, Inc., Human Options, and Serving People In Need (SPIN).

### Requirements of the Grant

The subject grant agreement (CA16B802-006), including the grant application, specified that the Coalition would provide transitional housing and supportive services to the target populations identified as homeless individuals in need of substance abuse treatment, homeless persons in families with children that are victims of domestic violence, and homeless individuals that are considered chronic substance abusers. Under the grant agreement, the Coalition would provide all of the SHP services while Orange County would act as a pass-through entity performing administrative functions. Orange County was authorized to retain 100% of the \$116,856 allocated for program administration. The grant agreement provided for Orange County and the Coalition to meet the following performance measures:

- Ninety five percent (95%) of households served will obtain permanent housing with 90% maintaining their housing without subsidy for at least one (1) year upon completion of the program, 86% for at least two (2) years upon completion of the program, and 85% for at least three (3) years upon completion of the program.
- One hundred percent (100%) of all clients will meet with the Job Developer on an as needed basis while a program participant.
- Ninety five percent (95%) of all clients will receive job counseling, job development and tracking for three (3) to six (6) months after employment is secured.
- One hundred percent (100%) of all clients funded through the grant will participate in case management services for the three (3) year period. As clients move toward self-sufficiency, case management services will decrease proportionally.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The overall objective of our audit was to determine whether Orange County and the Coalition operated the Supportive Housing Program grant in accordance with the approved application as well as HUD and other federal requirements. To accomplish our objective, we interviewed HUD, Orange County and Coalition officials; visited the transitional housing locations; reviewed Orange County's policies and procedures manual; and reviewed the grant application, grant agreement, technical submission and the Coalition's annual progress report, financial records, and participant files. We also reviewed applicable criteria including Office of Management and Budget (OMB) Circulars A-87 and A-122.

The audit generally covered the period from grant approval on May 14, 1999 through October 31, 2000. We conducted the audit in accordance with generally accepted government auditing standards.

## REVIEW RESULTS

### **Orange County charged unsupported and ineligible administrative salary costs to the grant.**

Orange County charged \$27,055 to grant administration based on an unallowable budget-based indirect cost allocation formula and charged another \$4,532 to the grant for which there was no verifiable support. Furthermore, \$3,958 of the \$27,055 pertained to indirect costs recorded for pay periods prior to the May 14, 1999 grant approval date. The \$3,958 in pre-grant charges are ineligible and \$23,097 (\$27,055 - \$3,958) plus \$4,532, or a total of \$27,629 are unsupported.

Office Of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, does allow an agency of a governmental unit to claim indirect costs under Federal awards but only in accordance with a formally developed and certified indirect cost rate proposal or plan. Circular A-87 also specifies the documentation required to support indirect cost proposals as well as the submission and approval requirements.

Time sheets for the Orange County Housing and Community Development Department staff documented their time spent working on this specific grant and indirect time charges not identifiable with any individual grant. Orange County charged this indirect time to a general SHP job category and then allocated the related costs to individual SHP grants using a budget-based indirect cost allocation formula.<sup>1</sup> This indirect cost allocation procedure was neither certified nor approved and does not comply with OMB Circular A-87 documentation or development requirements.

### **The Coalition charged unsupported and ineligible supportive service salary costs to the grant.**

Three of four Coalition members did not maintain time sheets in support of \$148,913 charged to the grant for supportive service salaries. One Coalition member (FISH) did maintain proper time sheets, but paid staff at higher than normal pay rates or in supplement to the established salary for any time spent working on SHP activities. This resulted in \$14,875 of ineligible overcharges to the grant. Finally, Mercy House charged the SHP Grant Coordinator's \$41,361 salary as supportive service cost even though she exclusively performed administrative duties.

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, requires distributions of salaries and wages to awards be supported by appropriate personal activity reports which reflect an *after-the fact* determination of the actual activity of each employee. The Circular specifically states budget estimates do not qualify as support for charges to awards. Compensation to individual employees is also limited to that which "...is reasonable for the services rendered and

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<sup>1</sup> Budgeted administrative costs for this grant (\$116,856) divided by budgeted administrative costs for all SHP grants (\$281,960).

conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities.”

The Code of Federal Regulations, 24 CFR 583.120(b) provides supportive service salary costs may include only those salaries of the actual supportive service providers. Administrative salary costs are eligible under the SHP but may not be charged as supportive services.

Contrary to OMB Circular A-122 and 24 CFR 583, Mercy House, SPIN and Human Options charges for supportive service salary costs were not based on personal activity reports (time sheets) reflecting after-the-fact determinations of employee time spent providing supportive services under this grant. Time sheets for some of these individuals did not identify time spent on supportive services versus other activities although their position descriptions indicated they performed a variety of functions. Time sheets for others of these individuals actually reflect time spent on activities other than the provision of supportive services, yet their entire salaries were charged to the grant as supportive services.

Several of the FISH employees received compensation at higher than their normal pay rates for any time spent providing supportive services under this grant. The FISH Executive Director was paid an hourly rate for time spent on SHP activities in addition to her fixed annual salary rate even when work on the SHP activities was during normal working hours. In effect, she received extra pay for any time charged to this grant. The FISH Executive Director said their accountant had reviewed and approved this procedure.

Mercy House charged the Grant Coordinator’s \$41,631 salary as a supportive service cost because they were not aware that administrative salaries may not be charged as supportive services and/or because Orange County did not pass any of the authorized administrative funding on to the Coalition. The Grant Coordinator position is clearly administrative and many of the activities of other senior Coalition staff appear to be administrative in nature. Subsequent to the award of this grant, HUD recognized the need for administrative funding at the sub-grantee level and required State and local governmental units to pass on at least 50 percent of the administrative funds.

### **Orange County made an unallowable advance of grant funds to the Coalition**

Orange County approved and paid an initial advance to the Coalition totaling \$40,072 ostensibly for start up salaries for various Coalition member staff positions. The funds for this advance were included in a \$40,072 Letter Of Credit Control System (LOCCS) payment to Orange County made on September 1, 1999. Orange County provided the advance with the understanding that documentation supporting the advance would be included in the final Coalition billing under the contract.

Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments specified at 24 CFR 85.20(7) provide that grantees must make LOCCS drawdowns as close as possible to the time of making actual disbursement and must assure that sub-grantees conform substantially to the same standards.

The \$40,072 advance to the Coalition, with the expectation of incurring the related costs at the end of the grant period some three years later, therefore, is apparently a clear violation of the applicable regulation.

**The Coalition admitted ineligible participants and participants whose eligibility was not adequately documented into the Supportive Housing Program.**

All four Coalition members failed to properly determine and/or document the homelessness eligibility of prospective participants. We reviewed 16 participant files and concluded that six participants were ineligible and the eligibility of six more was not adequately documented. For the 16 files reviewed, the Coalition spent \$12,258 in direct supportive service costs for ineligible participants and \$5,921 for participants who may not have been eligible. These figures do not include supportive service salary costs relating to the ineligible or questionable participants.

HUD's Supportive Housing Program (SHP) Desk Guide requires the grantees to maintain adequate written documentation to demonstrate the eligibility of the participants. Orange County and all of its sub-recipients received HUD training on SHP requirements including participant eligibility and documentation of eligibility. However, Coalition staff were either unfamiliar with the requirements or did not realize the importance of compliance. As a result, the Coalition admitted ineligible participants into the program thereby limiting the funding which would have been available for truly qualified applicants.

We could not determine the eligibility of six participants primarily because the Coalition failed to adequately document their prior living situations. For the other six participants we classified as ineligible, the Coalition did not adequately determine or document their homelessness eligibility and we concluded that they did not qualify as homeless. The bases for our conclusions were:

- **FISH Participant 1** - Documentation in the file showed the family was previously living in motels and had signed a lease to rent a townhouse two weeks prior to the earliest intake document date. HUD's Supportive Housing Desk Guide specifically classifies persons who are already in housing as ineligible "even though they are paying an excessive amount for their housing." This family was earning annual wages totaling \$73,514 when they were accepted into the SHP program. The types of supportive services funded for this family would technically have been eligible if the family had been eligible. However, grant funds were effectively substituted for their own funds which were used to pay for delinquent Federal and State tax bills, traffic fines, payments on two automobiles, airline tickets, credit card bills, cable TV, internet service, and regular as well as cell phone service.
- **SPIN Participant 1** – Most of the intake documents appear to have been prepared coincident with or subsequent to the individual taking up occupancy in SPIN's facility, which he listed as his current address. However, one intake document listed a different current address. Through Internet reverse directory research; we determined that address to be a relative's address.

- **SPIN Participant 2** – Participant file documents indicated this individual was living with family or friends at the time of acceptance into the SHP.
- **Mercy House Participant 1** – Intake documents indicated the prior living situation for this individual was a shelter but the required verification was not obtained from the shelter as to his occupancy or their determination of his homelessness. The intake documents included an “Exit Plan” wherein the participant stated he was earning \$1,362 per month and would need \$1,500 per month to live on his own. The participant file also included pay stubs evidencing his employment at two jobs (prior to his January 31, 2000 approval for SHP funding), one of which was paying him \$1,733 per month. Therefore, by his own account, this individual possessed the financial resources to live on his own when he was approved for the SHP.
- **Mercy House Participant 2** – There was no documentation in the participant file of this individual’s homelessness eligibility. In fact, the intake documents stated her prior living situation was in a motel and she was in possession of a HUD voucher prior to her approval for SHP funding. Living in a motel does not qualify as homeless and since this individual had a housing voucher from HUD, she also possessed the resources to obtain housing independent of any SHP assistance.
- **Mercy House Participant 3** – There was no documentation in the participant file showing that this individual was homeless. Intake documents indicated his prior living situation was renting in a shared housing arrangement.

Since 12 of 16 files (75%) we reviewed did not include adequate documentation of homelessness eligibility, and 6 of 16 participants (38%) apparently were not eligible, it is clear that the Coalition needs to improve their procedures for determining and documenting client eligibility for the SHP.

**The Coalition did not accomplish program goals and/or could not support reported accomplishments.**

HUD requires grantees to submit annual progress reports (APRs) on the goals listed in their applications. HUD uses this information to evaluate the successfulness of the programs. Although the required report submitted by the Coalition to Orange County and HUD claimed accomplishment or near accomplishment of three first year program goals, they did not maintain verifiable support for the accomplishment of one of the goals and erroneously overstated the accomplishment relating to another goal. Moreover, the Coalition will not likely be able to provide accurate reporting on any of the long-term goals specified in the grant application.

The Coalition did not maintain participant files or other summary records in a manner which facilitated confirmation of the APR accomplishments. Although the Coalition reported that 100 percent of the clients met with a job developer and received employment training, no records were maintained

tabulating or summarizing this accomplishment. It would apparently be necessary to review every participant file in order to verify the reported accomplishment.

Another first year goal was that 95% of households served would obtain permanent housing. The Coalition reported 92% obtained permanent housing but could not support this assertion. Actually, statistical data the Coalition provided elsewhere in the APR indicates only 79 of 183 participants (43%) who left the program obtained permanent housing.

The APR did not address other permanent housing goals because sufficient time had not elapsed to measure the results. The long-term permanent housing goals are for 90% to maintain the permanent housing without subsidy for at least one year, 86% for two years, and 85% for three years. Due to the transient nature of much of the homeless population, we believe the Coalition will experience considerable difficulty obtaining the information necessary to accurately report on these goals.

**The Coalition did not maintain adequate documentation of client tracking, habitability inspections, and rent reasonableness determinations.**

Apart from the difficulty the Coalition can expect tracking participants in order to report on long-term permanent housing goals, the Coalition did not maintain adequate documentation of exited participant tracking even for the short-term. Neither did the Coalition maintain adequate documentation of the requirements for rent reasonableness determinations nor habitability inspections.

Appropriate documentation of participant tracking is necessary for the accurate reporting on program goals. Rent reasonableness determinations are required under 24 CFR 583.115(b)(2) to ensure that grant funds are used efficiently, and habitability inspections are required under 24 CFR 583.300(b) to assure compliance with minimum housing quality standards.

Many of the participants whose files we reviewed were provided housing in facilities owned by Coalition members. Habitability inspections and rent reasonableness determinations were not required in these participant files since the requirements were already met in conjunction with the grant application technical submission. Similarly, documentation of participant tracking was not applicable for all 16 participant files we reviewed since some had not yet left or had only very recently left the SHP. However, as shown in the following table, the Coalition did not comply with these requirements in many cases where they were applicable.

<i><b>Coalition Member</b></i>	<i><b>Habitability Inspection</b></i>			<i><b>Rent Reasonableness Determination</b></i>			<i><b>Tracking Documented</b></i>		
	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>FISH (3 Files)</b>	1	2	0	0	3	0	0	1	2
<b>SPIN (4 Files)</b>	3	1	0	0	1	3	1	1	2
<b>Human Options (4 Files)</b>	0	2	2	0	2	2	0	2	2
<b>Mercy House (5 Files)</b>	0	0	5	0	0	5	0	0	5
<b>Totals (16 Files)</b>	4	5	7	0	6	10	1	4	11



Coalition staff told us that they do inspect leased or rental units and are familiar with the going rental rates. They said they would document habitability inspections and rent reasonableness determinations in the participant files in the future.

### **AUDITEE COMMENTS AND OIG EVALUATION OF AUDITEE COMMENTS**

Advance copies of the audit memorandum were provided to Orange County and the Coalition for their comments, and our proposed recommendations were discussed with officials of both the County and the Coalition at an exit conference on April 20, 2001. The March 23, 2001, consolidated written response from the County and Coalition expressed disagreement with every issue addressed in the draft audit memorandum. Their written response is included as Attachment A to this audit memorandum and our evaluations of the response comments are as follows:

#### **Orange County charged unsupported and ineligible administrative salary costs to the grant.**

##### Comment Synopsis

The County contended the budget based indirect cost allocation procedure is reasonable and in compliance with OMB Circular A-87. They said HUD does not require formal certification of the indirect cost allocation procedure. They said the support for \$4,532 reallocated to this grant is a correction memo from the section supervisor. They said the \$3,958 in pre-grant charges is allowable under A-87 as pre-award costs.

##### OIG Evaluation

In our opinion, Orange County's budget based indirect cost allocation procedure is neither reasonable nor approvable under A-87. The dollar amounts of federal grants often bare little if any direct relationship to the time required for administering the grants. For example, some grants might include significant dollar amounts for capital expenditures that would not require proportionately larger amounts of time to administer. Also, the administrative time required for comparable dollar amount grants can vary significantly depending on the experience and expertise of sub-recipients.

We are not aware of any exemption granted to HUD relative to compliance with A-87 requirements for indirect cost rate certifications or approvals.

The memo from the section supervisor directing the reallocation of \$4,532 in administrative salary costs does not constitute adequate verifiable support for the charges. The time sheets supporting the charges (but where employees supposedly used the wrong job codes) cover pay periods ranging from March 1999 through November 1999. We do not accept the notion that in September 2000 (when the costs were reallocated), a supervisor could have somehow determined that his people did not know what they were working on when they recorded their time upwards of a year prior. Furthermore, some of

the reallocated costs covered pay periods prior to the May 14, 1999 grant approval and are clearly ineligible.

We agree that A-87 does provide for the eligibility of pre-award costs. The County provided the proper citation, however only in part. A-87 does state "Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award..." The citation goes on to say "...and only with the written approval of the awarding agency." The County did not request or obtain HUD's approval to incur pre-award costs.

**The Coalition charged unsupported and ineligible supportive service salary costs to the grant.**

Comment Synopsis

The County and Coalition did not agree that timesheets were not maintained to support \$148,913 charged to supportive service salaries and cited the number of clients served as evidence the salaries were supported. They said the SHP Coordinator's salary was appropriate and eligible as a supportive service cost since the position description was included in the grant application approved by HUD. They said the FISH Executive Director and other FISH employees were working outside their regular job descriptions when working on activities relating to this grant, and therefore were entitled to the extra and incrementally higher pay. They also took exception to some of the phraseology in the draft and to the "cause" statement.

OIG Evaluation

It is entirely possible that actual staff time spent by the Coalition for the direct benefit of the homeless population far exceeds expenditures charged to the grant, but the required time sheets supporting this possibility were not maintained. The fact that they may have gotten the job done (and more) does not constitute valid support for supportive service salary charges from an audit or accounting standpoint.

The job description for the SHP Coordinator submitted with the grant application included both administrative and supportive service (case management) duties and was budgeted for 75 percent of the employee time to be spent on supportive service activities. There was no reason for HUD to take exception to the grant application for this position. Contrary to representations in the grant application, the SHP Grant Coordinator spends 100 percent of her time on administrative functions albeit in furtherance of the provision of actual supportive services by other Coalition staff. In fact, case management responsibilities were officially removed from the SHP Grant Coordinator's job description as of September 1, 1999.

Case management responsibilities are included in the job descriptions for all five of the FISH employees (including the Executive Director) who were paid at higher than normal rates or in addition to the fixed annual salary for any time charged to this grant.

We made some minor wording changes to the report in recognition of the County and Coalition concerns.

**Orange County made an unallowable advance of grant funds to the Coalition**

Comment Synopsis

The County denied the \$40,072 advance was made with the expectation of incurring the related costs at the end of the grant period some three years later. They claimed the advance represented funds paid to the sub-grantee as reimbursement for their estimated expenditures incurred during the preceding 30 days.

OIG Evaluation

On page CA2 of the September 1, 1999 Memorandum of Contract between the County and the Coalition, it is stated:

“This cash advance to the SUBRECIPIENT shall be deducted from the following reimbursement request(s): from the last reimbursement request(s).”

**The Coalition admitted ineligible participants and participants whose eligibility was not adequately documented into the Supportive Housing Program.**

Comment Synopsis

The County and Coalition disagreed with the statement that the Coalition admitted ineligible participants and then they said they have taken corrective action to ensure that client's homeless status is verified and documented. For each of the participants we classified as ineligible, the Coalition provided explanations of their rationale for accepting them into the SHP and/or they described additional information or documentation that was not in the file confirming their homelessness eligibility. Details of the County and Coalition positions on the eligibility of each of the six participants are included in Attachment A.

OIG Evaluation

Any new documentation supporting the eligibility of the participant should be provided to HUD in conjunction with the audit resolution process. Regarding participants where no new documentation was alluded to:

**FISH Participant 1** – There was one document in the file indicating possible assistance the family may have received from one (not various) agency. This document was faxed to FISH or the Coalition on October 19, 2000, after we had requested the participant file. It indicated that a payment of \$200 was made to or on behalf of the family for their apparent stay at a motel on May 24 and 25, 2000. Another document in the file indicated the family stayed at a different motel from May 12<sup>th</sup> through June 3<sup>rd</sup>. In

any event, the payment from the other agency does not constitute documentation of homelessness eligibility.

The wife's lost time due to illness was taken into consideration in our calculation of her annual income at \$39,137. She had earned \$15,053 in 2000 through the twenty weeks ended May 20, 2000, including the period of her illness. We projected the average earnings of \$752.65 ( $\$39,137 \div 20$ ) per week over the 52 weeks in a year ( $\$752.65 \times 52$ ) to arrive at the \$39,137 annual income figure. In calculating her income in this manner, we actually annualized the lost time she may have experienced for only a short time. The participant file includes a pay stub from the other non-profit for the husband reflecting earnings through June 2, 2000. For purposes of explaining the undocumented, unofficial acceptance into the SHP prior to the June 1, 2000, earliest actual intake document, the Coalition would have us consider the families' eligibility sometime prior to June 1, 2000. For purposes of determining the husband's income, the Coalition would have us use some date after June 2, 2000. The family income of \$75,514 cited in the draft report was based on the husband's employment at the time the family was accepted into the SHP on June 1, 2000. In July 2000, the husband obtained other employment which when combined with the very conservative calculation of the wife's income would result in an annual income for the family of \$65,137.

It is doubtful that Congress contemplated the use of SHP funding for individuals or families with such considerable financial means. Similarly, millions of taxpayers of lesser (or even greater) means would not likely appreciate the use of their tax dollars for the support of a delinquent taxpayer.

**Mercy House Participant 1** – Pay stubs in the participant file indicated this individual had two jobs, one of which produced the \$1,733 monthly income we cited. The second job produced an additional \$854 of monthly income. This individual was actually earning \$2,587 per month or \$31,044 annually.

**The Coalition did not accomplish program goals and/or could not support reported accomplishments.**

Comment Synopsis

The County and Coalition did not agree that goals were erroneously overstated. They took exception to our statements in the draft report regarding incentives for the clients and the Coalition to maintain contact after the clients leave the SHP. They described the automated tracking system used by SPIN.

OIG Evaluation

The County/Coalition response provided no information describing why they disagreed with our statement that they erroneously overstated the accomplishment relating to one goal.

We removed the draft report references to client and Coalition incentives to maintain post SHP contact.

The discussion relating to SPIN's tracking system is misplaced since this finding section deals with goal accomplishment, not with tracking which is covered in the subsequent section. However, the

description of SPIN's tracking system pertains to tracking while clients are in the SHP. The problems we describe in the next finding section deal with post SHP tracking.

**The Coalition did not maintain adequate documentation of client tracking, habitability inspections, and rent reasonableness determinations.**

Comment Synopsis

The County and Coalition disagreed with this finding section title statement in its entirety. They said SPIN maintains housing inspections on file in their office and claimed that no client rents exceeded \$580 per month. They strongly disagreed that any participants may have been provided housing in facilities owned by Coalition members and disagreed the Coalition did not maintain adequate documentation of participant tracking even for the short-term. They again described the automated tracking system used by SPIN.

OIG Evaluation

The draft report cited one incidence where SPIN did not document the required habitability inspection. In that case, there was evidence in the file that SPIN inspected an apartment the participant hoped to occupy but not the apartment the participant eventually occupied.

The participants referenced in the finding without documented rent reasonableness determinations were accommodated in units charging rents as follows:

FISH Participant 1	\$1,200
FISH Participant 2	900
FISH Participant 3	850
SPIN Participant 1	727
Human Options Participant 2	795
Human Options Participant 3	610

The grant application indicated two facilities (Joseph House and Regina House) are owned by the nonprofit entity, Mercy House. Similarly, the grant application suggested that the Human Options nonprofit entity owns the domestic violence victim shelter they operate. The County and Coalition (may have) misinterpreted our comment as suggesting individual Coalition board members owned the facilities.

The lack of adequate documentation for client tracking discussed in this finding section pertains to post SHP tracking, not the tracking SPIN or any of the other Coalition members do while clients are in the program.

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**RECOMMENDATIONS**

We recommend that you require Orange County to:

- 1A. Submit documentation and justification for your review and approval, in accordance with OMB Circular A-87, pertaining to the indirect costs allocation procedure. If the procedure is not approvable under OMB Circular A-87, the related \$27,629 in unsupported costs should be reimbursed to HUD.
- 1B. Reimburse HUD for the \$3,958 of ineligible Orange County administrative salary costs.
- 1C. Require the Coalition to provide you with reasonable estimates (together with explanation and justification) of salary costs directly associated with the provision of supportive services under this grant. Based on your review of such materials, determine the allowability of \$148,913 in unsupported Coalition supportive service salaries.
- 1D. Reclassify the \$41,361 of SHP Grant Coordinator salary as administrative costs or reimburse HUD in that amount.
- 1E. Reimburse HUD for the \$14,875 of ineligible salary overcharges by FISH.
- 1F. Reimburse HUD for the \$40,072 of unallowable salary advance to the Coalition.
- 1G. Require the Coalition to make a reasonable effort to obtain and provide the missing documentation supporting the homelessness eligibility of the six participants included in our testing. Any of the \$5,921 in unsupported supportive service costs pertaining to participants determined to be ineligible should be reimbursed to HUD.
- 1H. Reimburse HUD for the \$12,258 of supportive service costs applicable to the six ineligible participants.
- 1I. Ensure the Coalition maintains time sheets and related supporting documentation showing that future supportive service salary charges pertain only to the provision of supportive services.
- 1J. Allocate sufficient portions of grant administrative funding to cover ongoing expenses for the SHP Grant Coordinator salary and other administrative functions as may be necessary for other Coalition staff, or be prepared to reimburse HUD for those expenses.
- 1K. Ensure the Coalition obtains and verifies the necessary documentation to support future participant homelessness eligibility.

- 1L. Assist the Coalition in developing and implementing the necessary procedures and systems to collect relevant data and accurately report on its performance.
- 1M. Ensure the Coalition maintains adequate documentation of habitability inspections, rent reasonableness determinations, and client tracking in the future.

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Within 60 days, please give us a status report on the recommendations stating (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives related to this review.

If you have any questions concerning this report, please call Ruben Velasco, Assistant District Inspector General for Audit, at (213) 894-8016.

## ATTACHMENT A

**HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT  
ORANGE COUNTY HOUSING AUTHORITY  
1770 North Broadway, Santa Ana, CA 92706-2642  
Paula Burrier-Lund, Director**

Telephone (H&NP): (714) 480-2900  
Telephone (OCHA): (714) 480-2700  
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March 23, 2001

Ruben Velasco, Assistant District Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
611 West Sixth Street  
Los Angeles, CA 90017

Dear Mr. Velasco:

Subject: Inspector General Draft Audit Report – Mercy House Coalition

During the period from October 2000 to January 2001, Robert G. King, Senior Auditor and Rita Mitzel, Auditor conducted a review of the County's 1998 Continuum of Care Program. On March 7, 2001, the County of Orange, Housing and Community Development Department (H&CD) received a letter from the Office of Inspector General (OIG) regarding their review of the 1998 Supportive Housing Program (SHP) grant for the Continuum of Care Coalition (Mercy House as Lead Agency), Grant No. CA16B802006.

In your letter, six (6) areas of concern were identified. The County and Coalition appreciates the opportunity to review and comment on the results of your review and to clarify issues that might be inaccurate, misleading or incomplete. Listed below is the combined response from both the County and Continuum of Care Coalition.

1. Orange County charged unsupported and ineligible administrative salary costs to the grant.

The County does not concur with this finding. Costs charged to this grant were supported, eligible, and allocable to the grant program. The methodology used to allocate certain internal administrative costs to this grant is reasonable and allocable in accordance with the requirements of A-87, Attachment A. A-87 allows use of an allocation base of total direct costs, direct salaries and wages, or another base that results in an equitable distribution. The budget-based allocation base we used falls into this third category and allocated to this grant its fair and reasonable share of certain internal departmental administrative costs. It is entirely reasonable to assume that relative size of the SHP grant is directly proportional to the amount of administrative time spent on the grant. HUD, similar to other Federal grantor agencies, does not require formal certification of allocations of all internal department indirect costs. However, HUD, similar to other Federal grantor agencies, does require that we allocate internal indirect costs in a reasonable manner whereby indirect costs are allocated to grants and programs in proportion to the benefits received, which we did.



The County does not agree with the finding that there was no verifiable support for the \$4,532 in administrative costs that were charged to the grant. Ordinarily, support for administrative salaries consists of employee timesheets. However, support for this \$4,532 is a correction memo from the section supervisor stating that his staff had used the wrong job number on their timesheets. This approved correction resulted in changing \$4,532 that staff had incorrectly coded on their timesheets from another SHP grant to the Coalition grant.

The County does not agree with the finding that the \$3,958 in pre-grant charges is ineligible. These are grant-related costs, which are properly chargeable to the grant in accordance with A-87. Grant pre-award costs, as defined in A-87, are those costs incurred prior to the effective date of the award directly pursuant to the award and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. A-87 goes on to state such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award. The \$3,958 in pre-grant charges meets all of the requirements of A-87.

2. The Coalition charged unsupported and ineligible supportive service salary costs to the grant.

The County and Coalition feel that it is misleading to state that "the FISH Executive Director received extra pay for time spent working on the SHP grant". The FISH Executive Director's annual salary is predetermined. The case management for SuperNOFA is over and above the 45 hours worked performing the duties of Executive Director. The Executive Director was not paid for SuperNOFA case management unless the time performed was over and above the time allotted to the duties of the Executive Director.

In addition, although timesheets may not have been maintained in the most desirable manner, the County and Coalition disagree that timesheets were not maintained to support \$148,913 charged to supportive service salaries. SPIN works within generally accepted accounting principals. It should be noted that the grant amount for salaries were 1996 projections based on the number of clients projected to be served through the SuperNOFA and the average amount of time spent assisting clients in 1998. This number was significantly higher than originally projected. Out of the 459 Substance Abuse Rehabilitation Program (SARP) clients in the Year 2000, 360 (78%) were SuperNOFA clients. Yet SPIN remains within the budget constraints listed in the budget projected in 1996.

Concerning the duties of the SHP Coordinator, Mercy House submitted a job description during the application process that reflected the needs of this position. Since the contract was awarded without any request for modification of this position it was assumed that the job description presented was appropriate and eligible under the contract. Our understanding of the grant agrees with this interpretation. Attached please find the original and modified job descriptions.

In March 2001, County and SPIN staff members attended a two-day HUD-sponsored training workshop on the administration of SHP grants. Staff was instructed that a monthly activity sheet completed by staff on a daily basis would be sufficient. We are confident that staff time spent to provide direct benefit to the homeless population far exceeds expenditures made to the SHP grant.

In addition, FISH paid staff for hours worked on case management for SuperNOFA only. FISH utilized existing staff to perform duties not within their regular job description. Since the responsibilities and case management of clients in transitional housing is completely different and separate from their other duties, to maintain fair employment practices, staff was paid at the SuperNOFA salary rate for only the hours spent performing case management activities for SuperNOFA clients. FISH did, in fact, discuss this with their accountant, who approved the procedure. To avoid potential discrimination allegations, employees working with and providing case management to SHP clients were compensated at the Case Manager rate of pay.

The County and Coalition disagree with the statement that the Grant Coordinator's salary was charged as a supportive service cost because Orange County did not pass any of the administrative funds to the Coalition. It is also misleading to state that "HUD... required State and local governmental units to pass on at least 50% of the administrative funds".

The requirement to pass on at least 50% of the administrative funds was not mandated until the Year 2000 competition. Prior to that time, State and local governmental units were encouraged to work with sub-grantees to determine allocation of administrative funds. It was because of the HUD mandate to pass on at least 50% of the administrative funds to the project sponsor that the County elected to file an Associated Application in the 2000 process in order to pass on 100% of the administrative funds to the project sponsor.

According to the regulations, costs must be reasonable for the services rendered and conform to the established policy of the organization to be consistently applied to both Federal and non-Federal activities. These were not administrative costs, but supportive service salary costs associated with the delivery of services.

It is unclear what is meant by the statement "Contrary to OMB Circular A-122, Mercy House, SPIN and Human Options charged salary costs of supportive services providers to the grant based on the budgeted amounts for the positions". Staff salaries were not paid based on the budget amount indicated in the grant, but as a direct result of supportive services benefiting SHP clients. It should be noted, however, that before the OIG auditors had completed their review, Coalition members had already revised their time cards to more accurately reflect time spent on SHP related supportive services versus other activities.

3. Orange County made an unallowable advance of grant funds to the Coalition.

The County does not concur with this finding and believe we have fully complied with 24 CFR 85.20(7). It is not true that the \$40,072 payment to the Coalition was made with the expectation of incurring the related costs at the end of the grant period some three years later. All Coalition expenditures for September 1999 were documented and reimbursed to the Coalition in October 1999. The Coalition is only between 30 and 60 days behind in submitting claims and receiving reimbursement for their expenditures. This \$40,072 payment to the Coalition covers the minimum 30-day period that the Coalition is in arrears in submitting their claim and receiving reimbursement. An advance is the receipt of Federal funds before the grantee or sub-grantee incurs the related expenditure. This \$40,072 represents Federal funds paid to the sub-grantee as reimbursement for their estimated expenditures incurred during the last 30 days. Although the amount of the payment remains a constant at \$40,072, the 30-day period it represents reimbursement for is continually updated each month to represent the most recent 30-day period. The \$40,072 was only an

advance in September 1999, the first month of the grant agreement. In accordance with 24 CFR 85.20(7) the Coalition immediately started spending this advance. Since September 30, 1999 the \$40,072 has represented payment to the Coalition for incurred and unreimbursed expenditures.

**4. The Coalition admitted ineligible participants and participants whose eligibility was not adequately documented in the supportive housing program.**

The County and Coalition disagree with the statement "the Coalition admitted ineligible participants into the program thereby limiting the funding which would have been available for truly qualified applicants". This statement is both misleading and incomplete. Although documentation can be improved upon, all four Coalition members maintain documentation to properly determine and/or document the homelessness eligibility of prospective participants. Historically Mercy House has allowed for client self-certification upon signing of the intake form. The Coalition has since taken corrective action to ensure that a client's homeless status is verified and documented.

FISH Participant 1 – The family of five (5) was living in a motel prior to admittance to the program. The motel was being paid by various agencies in the County (i.e. Saddleback Community Outreach). This is documented in their file. The wife's annual income was \$36,000 when they entered the program. However, the wife had been out of work for a period of time due to a stroke. The husband had been working for a non-profit with an income of approximately \$14.00 per hour, but had lost his job prior to entering the program. The Case Manager who was to be the primary contact for this family was on vacation when this family applied for the program. In anticipation that the Case Manager would approve the family for entrance into the transitional program, the family was told to begin looking for a rental near their children's school so that, if approved, they would know where available rentals were located. They were not told to sign a lease and FISH did not realize that a lease was signed. This family had considerable debt upon entrance to the program and would not have been able to obtain permanent housing and eventually self-sufficiency without the program.

SPIN Participants 1 and 2 – The SARP clients are substance abusers and a "special needs population". When an individual seeks assistance from SPIN, an initial intake is completed to determine eligibility and, if qualified, the individual is referred to a recovery home. Once the client reports to the site, an eleven-page application/participation form is completed which includes certification of what made them homeless and the client signature. However, based on OIG's draft report SPIN is revising the application/participation form to clarify eligibility and movement from homelessness to recovery even clearer to anyone observing, reading or scan the files.

Although the client file indicated this individual was living with family or friends at the time of acceptance into the SHP, further documentation also indicates that the individual had been kicked out and was no longer welcome in the family home. In another case, the individual needed an address to receive mail and the family address was used.

Mercy House Participant 1 – While there was a concern that this individual's income was too high, factors not considered included: the duration that the client was earning this income and other legal financial obligations. Furthermore, we do not feel that earning \$1,362 per month is an excessive amount of money considering the

current cost of rental housing in Orange County, which often is in excess of \$1,000 per month.

Mercy House Participant 2 – While we acknowledge the participant was living in a motel prior to entering Mercy House, due to a lack of resources the participant lost her temporary housing and had no other housing options. We felt that forcing the participant to enter a place that did not meet health and safety code requirements would have been an unreasonable and unnecessary option. Concerning her housing voucher, the participant had made numerous good faith efforts to obtain housing. While she was unable to do so prior to entering Mercy House, not an uncommon occurrence considering Orange County's tight housing market, she was successful in obtaining housing through assistance from Mercy House.

Mercy House Participant 3 – This participant was being evicted from the shared living situation and had no subsequent identified residence. Mercy House acknowledges that proper documentation noting the situation was not secured. We have taken corrective measures as noted above.

5. The Coalition did not accomplish program goals and/or could not support reported accomplishments.

The County and Coalition agree that, at this time, it is difficult to determine whether or not the accomplishments listed in the Annual Progress Report (APR) will be maintained over the three-year grant period. However, we do not agree that the goals were "erroneously overstated". The County and Coalition are currently working together to make improvement to the current system.

The County and Coalition believe that it is presumptuous to say that "there is no incentive or requirement for clients to maintain any contact with the Coalition once they have left the SHP and the only incentive for the Coalition is the requirement". For instance, SPIN clients are tracked and information is maintained on a database that was designed specifically to answer track client progress, expenditures on the client's behalf, etc. Tracking documentation consists of case notes, written follow-up by the recovery home manager, billing invoices, pre-interview form, eleven page intake form, SuperNOFA client intake form, and an exit report with admission date, exit date and completed SPIN date.

6. The Coalition did not maintain adequate documentation of client tracking, habitability inspections, and rent reasonableness determinations.

The County and Coalition disagree with the statement that "the Coalition did not maintain adequate documentation of the requirements for rent reasonableness determinations or habitability inspections". In fact, SPIN maintains housing inspections on file in their office. Rent is based per HUD on 75% of 0-bedroom SRO or \$580 and documentation exists to support that none of the rents exceed this amount.

As stated in the draft report, habitability inspections and rent reasonableness determinations were not required for many participant files since the requirements were met upon approval of the technical submission. In addition, documentation of participant tracking was not applicable for all 16 participant files reviewed since some had not yet left or had only very recently left the SHP.

Coalition members do, in fact, conduct inspections on leased or rental units and are familiar with the going market rental rates. However, the County and Coalition

acknowledge that this is an area that can be improved upon. Coalition members have developed procedures and implemented processes to document habitability inspections and rent reasonableness determinations for future participants.

In addition, the County and Coalition would like to stress that we strongly disagree with the statement that "Many of the participants whose files we reviewed were provided housing in facilities owned by Coalition members". This statement is both misleading and inaccurate. There is no evidence to indicate that any client was housed in a facility owned by Coalition members.

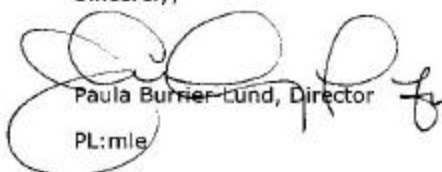
The County and Coalition disagree with the statement that "the Coalition did not maintain adequate documentation of participant tracking even for the short-term". SPIN has a custom designed database to track clients. Clients may enter other SPIN programs (including move-in costs to permanent housing) if they maintain communication with staff. Also, clients who remain in touch are eligible for non-SHP funds, which are given to help clients achieve a new goal (i.e. further job training, crisis intervention, etc.). These incentives are offered as a natural evolution of the programs and to ensure clients have every reason to stay in touch.

The County would like to point out that all member of the Coalition (Mercy House, SPIN, FISH, and Human Options) have been both diligent and responsive to the needs of the homeless population in Orange County and work hard to adhere to the regulatory requirements of the SHP program. Coalition members have attended both H&CD and HUD sponsored workshops and training sessions and are constantly improving upon the processes used to document eligibility, verify homeless status, and develop methods to track clients after the exit the program. In addition, the County has already spoken to representatives from HUD Los Angeles and TONYA, Inc. regarding having a "Orange County" SHP workshop in May 2001.

In conclusion, the County believes that the Continuum of Care Coalition is delivering quality services to our County's homeless population that are effective and appropriate to the intent of this grant's guidelines. Although we concur that improvement is needed in some areas, we feel that this grant is being administered in accordance with SHP regulatory requirements.

Thank you for the opportunity to respond to the concerns identified by your staff. I trust that the responses submitted by the County and Coalition adequately addresses and clarifies the issues listed in your draft report. If you have any questions or need additional information, please contact Mary Engram of my staff at (714) 480-2896.

Sincerely,



Paula Burnier-Lund, Director  
PL:mle

c: William Barth, Director, Office of Community Planning and Development  
Jess Carbajal, Deputy Director  
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