
AUDIT REPORT



SUPPORTIVE HOUSING PROGRAM GRANTS

COLORADO COALITION FOR THE HOMELESS

DENVER, COLORADO

2003-DE-1006

August 26, 2003

U.S. Department of Housing and Urban Development
Regional Inspector General for Audit
633 17th Street, 14th Floor
Denver, Colorado 80202-3607



Issue Date	August 26, 2003
Audit Case Number	2003-DE-1006

TO: Guadalupe Herrera, Director, Office of Community Planning and Development, 8AD

A handwritten signature in black ink that reads "Robert C. Gwin".

FROM: Robert C. Gwin, Regional Inspector General for Audit, 8AGA

SUBJECT: Supportive Housing Program Grants
Colorado Coalition for the Homeless
Denver, Colorado

We completed an audit of the Colorado Coalition for the Homeless' (referred to as the "Colorado Coalition" and/or "Grantee") administration of their Supportive Housing Program Grants. The audit was initiated based on a complaint regarding the Grantee's administration of their HUD Grant funds. The objective of the review was to determine whether the Grantee's management controls were adequate to ensure that HUD grant monies were being used for eligible and supported program costs. To accomplish our objectives we focused our review on two of Colorado Coalition's Supportive Housing Program grants and expanded our review when necessary.

Our report contains three findings with recommendations requiring action by your office. We appreciate the courtesies and assistance extended by the management and staff of the Colorado Coalition for the Homeless and the HUD Office of Community Planning and Development.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ernest Kite, Assistant Regional Inspector General for Audit, at (303) 672-5452.

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Executive Summary

We completed a review of the Colorado Coalition for the Homeless' (referred to as the "Colorado Coalition" and/or "Grantee") administration of their Supportive Housing Program Grants. The audit was initiated based on a complaint regarding the Grantee's administration of their HUD Grant funds. We focused our review on two of Colorado Coalition's Supportive Housing Program grants and expanded our review when necessary.

We found that the Colorado Coalition's management controls were not adequate to ensure that HUD grant monies were being used for eligible and supported program costs. Specifically, we identified that:

1. The Colorado Coalition did not adequately support the source and application of HUD funded activities.
2. The cash match funds reported were not supported as expenditures of the particular Supportive Housing Program project, nor were the cash match funds recorded on the individual grant project's books of account.
3. Administrative costs charged to the two Supportive Housing Program projects during the audit period are not supported by actual supported costs as required by HUD Regulations.

Audit Objective

The objective of the review was to determine whether the Grantee's management controls were adequate to ensure that HUD grant monies were being used for eligible and supported program costs.

Deficient Support for the Sources and Application of HUD funds

Contrary to HUD requirements, the Coalition did not adequately support the source and application of HUD funded activities. The Coalition used various budgets and/or estimates for charging direct and indirect salaries and other operating and supportive services to its HUD funded Supportive Housing Program grants. The various subgrantees carrying out various segments of the supportive housing for the HUD funded programs were not allocating costs on a properly supported basis and for the actual costs of providing housing to the program grant recipients, as required by HUD Regulations. In addition, Colorado Coalition has charged various miscellaneous ineligible costs to its HUD grants.

As such, Colorado Coalition cannot fully support that the charges to the HUD grants represent the actual amount expended for each individual grant and program activity.

Deficient Supportive
Housing Program Cash
Match

Accordingly, appropriate changes need to be made to Colorado Coalition's method of charging costs to its HUD grant programs to ensure that only the actual costs of providing supportive housing and services are correctly charged to the program grants.

HUD requires part of the Supportive Housing Program costs be funded by the grantee and used for eligible grant program activities. These costs range from 20 to 50 percent of total program costs. The Colorado Coalition reported, in the most current Annual Performance Reports reviewed for nine of Colorado Coalition Supportive Housing Program grant projects, that \$283,235 in cash match funds were provided and used for eligible program activities. However, the cash match funds reported were not supported as expenditures of the particular Supportive Housing Program project, nor were the cash match funds recorded on the individual grant project's books of account. As a result, it is questionable whether the required cash match of \$283,235 for the grant projects reviewed was actually provided.

Unsupported Five Percent
Administrative Costs

The Colorado Coalition has charged the maximum five percent administrative allowance for their administrative fee under the two Supportive Housing Program projects we reviewed, rather than an amount based on actual supported costs. Colorado Coalition has based the five percent administrative total on the yearly budgets and estimates of its total general administrative costs and as such, considers the maximum five percent amount as justified. However, the \$147,551 charged to the two Supportive Housing Program projects during the audit period is not supported by actual supported costs as required by HUD Regulations. As a result, the eligibility of the \$147,551 as a program cost is questionable.

Recommendations

We are recommending the Colorado Coalition implement an adequate direct cost allocation system that properly allocates its salary and other related costs to the various HUD Supportive Housing Program grants and activities in conformity with HUD and Office of Management and Budget requirements. This will include a system whereby only actual costs are properly supported and directly related to the particular HUD funded program.

For indirect costs, we are recommending that Colorado Coalition revise its provisionally HUD approved Indirect Cost Proposal to equitably allocate its administrative and indirect costs in conformity with HUD requirements to ensure that such allocations are based on actual supported costs rather than budgeted amounts. In addition, HUD will need to determine the eligibility of the \$147,551 claimed by Colorado Coalition for the unsupported administrative costs charged to the two Supportive Housing Program grants we reviewed.

For the cash match requirements for the Supportive Housing Program grants, we are requesting that Colorado Coalition submit its cash match during the implementation of the particular grant activities and to use such monies for eligible program activities. Since the support for the cash match provided by Colorado Coalition during the audit period for the grants we reviewed was inadequate, Colorado Coalition will need to properly support the match that was reported as being provided. If HUD determines the cash match is insufficient, Colorado Coalition will need to repay the \$283,235 identified as unsupported.

Finally, Colorado Coalition will need to repay the ineligible amounts charged to the HUD funded grants for Colorado Coalition employee parking, staff training, and traffic violation fines. This includes the \$7,771 for parking, as well as, the \$1,675 for training and \$85 for fines that we identified were charged to the Concord Plaza and/or Lowry projects. Such costs are considered to be ineligible since the costs do not directly relate to the services being provided to the program recipients under the two HUD funded program projects.

Auditee Comments

The results of the audit were discussed with Grantee officials during the course of the audit, and at a briefing on June 9, 2003. Upon the Grantee's request, we met with the Grantee on June 23, 2003, to discuss their comments to the findings. The draft audit report was provided to the Colorado Coalition officials for their review and comment on July 1, 2003.

The Grantee provided their written response to our draft audit report on July 25, 2003, along with other supporting documents. The Grantee also provided copies of these

documents to the HUD Office of Community Planning and Development. Although the Grantee generally disagreed with our findings, they indicated they have implemented and are in the process of implementing some of the recommendations. The Findings section of the report evaluates their comments. Their complete written response, excluding the voluminous supporting documents provided, is included in Appendix B.

Management Decisions

Due to the Office of Community Planning and Development's current workload and the complexity of the issues involved in the findings, they have elected to provide the management decisions after the report is issued. Therefore, we agreed to issue the report without management decisions.

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Abbreviations

CPD	Community Planning and Development
HUD	United States Department of Housing and Urban Development
OIG	Office of Inspector General
SHP	Supportive Housing Program
OMB	Office of Management and Budget

Introduction

The Colorado Coalition for the Homeless (Colorado Coalition) was organized as a Not-For-Profit organization in 1983 in response to the growing crisis of homelessness in Colorado. The Colorado Coalition's mission statement identifies that the Colorado Coalition works collaboratively toward the prevention of homelessness and the creation of lasting solutions for homeless and at-risk families, children, and individuals throughout Colorado. The Colorado Coalition advocates for and provides a continuum of housing and a variety of services to improve the health, well-being and stability of those the Colorado Coalition serves.

The Colorado Coalition receives grant funding from the Department of Housing and Urban Development, the Department of Health and Human Services, local municipalities and Colorado State Community Development Block Grant funds (pass through funds), and private funding from various sources. The Colorado Coalition administers grants either directly or through contracts with other non-profit corporations in metropolitan Denver and in rural Colorado.

The Colorado Coalition's organizational structure includes related parties and facilities. The Colorado Coalition directly owns and operates eleven Not-For-Profit corporations and twelve assistance facilities. The Not-For-Profit organizations own or manage Limited Partnerships, which provide assistance, and services which the Colorado Coalition charges to its Federal grants. The Colorado Coalition's organization operates 886 units of housing (133 units receive grant assistance) and 96 beds that receive grant assistance. The Colorado Coalition directly employs about 248 employees, plus indirectly employs staff at the various facilities and projects. According to Colorado Coalition's records, about 43 employees provided assistance and services to more than one Colorado Coalition grant.

For competition years 1988 through 2000, HUD awarded the Colorado Coalition 50 HUD Supportive Housing Program grants totaling \$31,092,037. HUD awards Supportive Housing Program funds as annual competitive grants for an initial funding period and renewals are awarded as separate grants beyond the initial funding period. The purpose of the Supportive Housing Program is to promote the development of supportive housing and supportive services. This includes innovative approaches to assist homeless persons in the transition from homelessness, and to enable them to live as independently as possible.

We selected two of the largest Supportive Housing Program grants awarded to Colorado Coalition for our review. We used the following criteria for selecting the two grants: the grant amount, type of activities, grant status (i.e. closed, active) and the effective grant period generally occurred during our audit period. We selected grant number CO00B97-0310, Lowry Transitional Housing Project (subsequently referred to as Lowry Project) and grant number CO00B15-0178, Lakewood Transitional Housing Project (subsequently referred to as Concord Plaza). We expanded our sample of the Lowry Project to include an additional Lowry Grant, grant number CO01B00-3011, since Colorado Coalition had changed their cost allocation procedures after the originally selected Lowry grant had expired.

Lowry Project

Supportive Housing Program grant number CO00B97-0310 was a renewal grant with a term of three years. The grant period was from October 1, 1998 through September 30, 2001. The grant award was for \$2,115,332 and through the end of the grant period, the entire grant award of \$2,115,332 was expended. Supportive Housing Program grant number CO01B00-3011 was a renewal grant with a term of three years. The grant period was from October 1, 2001 through September 30, 2004. The grant award was for \$2,070,000 and through April 30, 2002, \$298,947 was expended.

Grant Number CO00B97-0310

<u>Cost Category</u>	<u>Awarded</u>	<u>Expended</u>
Operating Costs	\$ 406,091	\$ 406,091
Supportive Services	\$ 1,071,500	\$ 1,071,500
Administrative	\$ 100,732	\$ 100,732
Leasing	<u>\$ 537,009</u>	<u>\$ 537,009</u>
Totals	<u>\$ 2,115,332</u>	<u>\$ 2,115,332</u>

Grant Number CO01B00-3011 (expended as of April 30, 2002.)

<u>Cost Category</u>	<u>Awarded</u>	<u>Expended</u>
Operating Costs	\$ 182,173	\$ 16,964
Supportive Services	\$ 1,124,496	\$ 179,140
Administrative	\$ 98,571	\$ 14,235
Leasing	<u>\$ 664,760</u>	<u>\$ 88,608</u>
Totals	<u>\$ 2,070,000</u>	<u>\$ 298,947</u>

The Project operates 85 units of transitional housing for homeless families in Metro Denver developed through the initial HUD grant at Lowry Air Force Base, Xenia Manor Apartments, and Renaissance at Loretto Heights Apartments. Although the sites for some of the transitional units have changed over time, the total number of units has stayed the same. The Project provides the following supportive services: comprehensive assessment, case management, health care, mental health care, substance abuse treatment, employment and training, child care, early childhood development, and continuing education.

Concord Plaza Project

Supportive Housing Program grant number CO00B15-0178 was a new grant, with an original grant period of five years. The first two years of the grant, from approximately January 1997 to February 1999, was the construction portion of the grant. The three-year operating period of the grant was from April 1, 1999 through March 31, 2002, which began when the construction was substantially complete. The grant award was for \$1,023,930, and through the end of the grant period, the entire grant award of \$1,023,930 was expended, however, we did not review the new construction costs of \$400,000.

Grant Number CO00B15-0178 (New Construction not reviewed.)

<u>Cost Category</u>	<u>Awarded</u>	<u>Expended</u>
New Construction	\$ 400,000	\$ 400,000
Operating Costs	\$ 237,708	\$ 237,708
Supportive Services	\$ 353,638	\$ 353,638
Administrative	<u>\$ 32,584</u>	<u>\$ 32,584</u>
Totals	<u>\$ 1,023,930</u>	<u>\$ 1,023,930</u>

The Project developed and operates 25 units of transitional housing for homeless families. The Project provides the following supportive services: comprehensive assessment, case management, health care, mental health care, substance abuse treatment, employment and training, child care, early childhood development, and continuing education.

Audit Objectives and Methodology

The objective of the review was to determine whether the Grantee's management controls were adequate to ensure that HUD grant monies were being used for eligible and supported program costs.

To accomplish our audit objective, we selected two Supportive Housing Program grants awarded to Colorado Coalition. We performed the following audit procedures to accomplish our objective:

- Reviewed the Federal requirements, including the United States Code (i.e. McKinney Homeless Assistance Act), Notices of Funding Availability, Code of Federal Regulations, and Office of Management and Budget (OMB) Circulars.
- Reviewed files maintained by the Denver Office of Community Planning and Development relating to the Colorado Coalition's Supportive Housing Program grants.
- Interviewed HUD Community Planning and Development officials knowledgeable about Colorado Coalition's HUD grants and operations.
- Reviewed Colorado Coalition's audited Financial Statements issued by an Independent Public Accountant for fiscal years ending December 31, 1999 through 2001.

- Interviewed Colorado Coalition officials and employees responsible for the HUD grant activities.
- Reviewed Colorado Coalition's supporting documentation relating to the grantee's operations and process for accounting for grant costs and other related costs.
- Reviewed grant files maintained by Colorado Coalition.
- Obtained HUD's Line of Credit Control System information showing grant drawdown activity for the selected Supportive Housing Program grants projects and selected two voucher drawdowns for each grant based on the large dollar amounts.
- Additionally, selected and performed additional testing on the HUD April 2002 voucher drawdowns for the selected Supportive Housing Program grants, due to identified changes in the Colorado Coalition's process for allocating Supportive Service costs.
- Traced the drawdowns from HUD to Colorado Coalition's accounting records and supporting documentation to determine if costs were eligible and supported in accordance with HUD requirements.
- Performed limited reviews at a property management company and subcontractors providing case management/supportive services.
- Performed a site review at the two Supportive Housing Program projects: the Concord Plaza and Loretto Heights, one of the Lowry projects.
- Reviewed the Colorado Coalition's direct and indirect cost allocation of administrative costs to the HUD grants and other Colorado Coalition cost centers to include the grantee's indirect cost allocation plan.

- Reviewed the operating cost cash match reported in the most current Annual Performance Reports for the two Supportive Housing Program grant projects, plus expanded out testing to include 7 additional Supportive Housing Program grants that were required to have a supportive services cash match.

Audit Scope

Our audit of the selected Supportive Housing Program grants covered the period of September 1, 1999 through February 28, 2002, and was expanded as necessary to fully accomplish our audit objectives. Our scope was expanded to include applicable data, since the Supportive Housing Program grant periods were for three-year periods and the Colorado Coalition's procedures changed in March 2002. We conducted our fieldwork from April 2002 to July 2002, and conducted additional limited follow-up work in June 2003.

Generally Accepted Government Auditing Standards

Our review was conducted in accordance with Generally Accepted Government Auditing Standards.

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DEFICIENT SUPPORT FOR THE SOURCES AND APPLICATION OF HUD FUNDS

Contrary to HUD requirements, Colorado Coalition for the Homeless (Colorado Coalition) did not adequately support the source and application of HUD funded activities, because they used various budgets/estimates for charging direct salaries and other operating and supportive services to its HUD funded Supportive Housing Program grants. In addition, the various subgrantees¹ carrying out various segments of the supportive housing for the HUD funded programs were not allocating costs on a properly supported basis and for the actual costs of providing housing to the program grant recipients, as required by HUD Regulations. In addition, Colorado Coalition has charged various miscellaneous ineligible costs to its HUD grants. As such, Colorado Coalition cannot fully support that the charges to the HUD grants represent the actual amount expended for each individual grant and program activity. Accordingly, appropriate changes need to be made to Colorado Coalition's method of charging costs to its HUD grant programs to ensure that only the actual costs of providing supportive housing and services are correctly charged to the program grants.

Colorado Coalition must maintain a financial system and records that meet HUD and OMB requirements

Under HUD Regulations, Title 24 of the Code of Federal Regulations, Section 84.21, Colorado Coalition, as a grantee, is required to maintain a financial system and records that:

- Identify adequately the source and application of funds for the HUD sponsored activities;
- Consist of accounting records, including cost accounting records, that are supported by source documentation; and
- Provides accurate, current, and complete disclosure of the financial results of each HUD sponsored project or program activity.

OMB Circular A-122 requires that support of salaries and wages charged to grants, whether treated as direct costs or indirect costs, be based on documented payrolls approved by a responsible official(s) of the organization.

Furthermore, the distribution of salaries and wages to awards must be supported by personnel activity reports.

¹ Subgrantee refers to an entity that is implementing or carrying out part of the Supportive Housing Program activities on behalf of the HUD grantee, Colorado Coalition for the Homeless. The entity could be a subaward recipient, subcontractor, an identity-of-interest organization, or separate independent business or enterprise.

These reports, reflecting the distribution of activity of each employee, must be maintained for all staff members (professional and nonprofessional) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate. Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards.

- (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. **Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.**
- (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

In addition, HUD places specific requirements on the charging of salaries to the Supportive Housing Program grants. Specifically, HUD regulation at Title 24 Code of Federal Regulation, Section 583.120 states that actual costs of providing supportive services for homeless persons are eligible costs, which includes salaries paid to provide supportive services and other costs directly associated with providing such service.

Moreover, the HUD Supportive Housing Program Desk Guide further clarifies that the supervisor's salary is only eligible as a supportive service cost for the time when the supervisor is working with clients or working with case managers on issues regarding clients. **Time spent for grant administrative activities, such as preparing annual reports and reviewing and approving invoices for grant funds, are allowable only as administrative costs (which are limited) per the Supportive Housing Program Regulations.**

Due to a March 2001 HUD monitoring review, Colorado Coalition changed its method for allocating salaries

As a result of a March 30, 2001, HUD Community Planning and Development monitoring review, Colorado Coalition changed the process for allocating Supportive Service Staff time to its Federal grants. HUD informed Colorado Coalition that as of June 1, 2001, Colorado Coalition must account for all Supportive Housing Program grant expenditures separately. Specifically, Colorado Coalition needs "to ensure that timesheets and tasks performed by Colorado Coalition staff are noted on a per grant basis for all Colorado Coalition grants." The review further explained the Support Housing Program grant are unique grants which fund only the line items listed on the grant agreement and costs expended must be directly traceable to the issue grants.

Colorado Coalition administers 37 HUD grants and 19 other Federal grants

According to Colorado Coalition's 2001 audited financial statements, Colorado Coalition administers 37 HUD grants and 19 other Federal grants (56 grants total). The audit report identified that Colorado Coalition expended \$13,437,942 in Federal funds for these 56 grants for the fiscal year ending December 31, 2001.

Our review focused on two of the larger HUD Supportive Housing Program grants

We reviewed two of the major HUD Supportive Housing Programs operated by Colorado Coalition. We traced the drawdowns for the HUD programs to the accounting entries and the supporting accounting documents. Our review identified that Colorado Coalition charged the grants for direct costs² based on estimates and budgets (salaries, operating expenses, administrative expenses, and other costs associated with specific persons) and charged indirect costs³ based on budgets and estimates.

The two primary direct grant costs are salaries and facilities

The two primary direct grant costs include salaries and facilities. We reviewed the salaries charged to the grants by interviewing the person's involved and reviewing Colorado Coalition's accounting and payroll records. We identified the Colorado Coalition personnel worked on more than one HUD grant activity or worked on other tasks related to Colorado Coalition's other funded activities. Our review of the financial records disclosed that Colorado Coalition allocated staff salaries based on a

² Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization.

³ Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

We tested salary allocation at two Supportive Housing Program grant locations

predetermined budget or estimate, not on the actual time spent on each activity. According to the Accounting Manager, Colorado Coalition used the predetermined allocations for not only allocating salaries and benefits but also other charges such as cellular telephone, parking, etc.

We tested the employee salaries charged to the Concord and Lowry Supportive Housing Program grants for the months of August 2001 and September 2001. Our testing identified that Colorado Coalition allocated Supportive Housing Program employees time based on the predetermined grant/program allocation, without regard to the actual after the fact time the employee spent on the Supportive Housing Program grant activity. Colorado Coalition officials stated they implemented a new process for recording Colorado Coalition employee time for rural Supportive Housing Program grants in June 1, 2001, and did not get a new process to record Colorado Coalition employee time for metro Supportive Housing Program grants fully implemented until about March 2002. Since the Supportive Housing Program grants we reviewed were Metro grants, we also reviewed Colorado Coalition's Supportive Services staff salaries for March 2002.

For the employees reviewed under the new process, Colorado Coalition allocated employee time either based on the grant/program allocations that were determined based on the Supportive Service Director's estimation or according to documentation that was not adequate to show the actual time the employee spent on each grant/program. In one case, an employee's time was still being allocated according to the old system of allocation based on the predetermined staff assignments. Although, the employees sign that the allocation is a reasonable estimate of the actual work performed, the employees do not keep time records of the actual work performed for each grant/program to support that the estimate is reasonable.

For example, the Colorado Coalition Director of Family Supportive Services charges 60% of her time to the metro Supportive Housing Program grants and 40% to the rural Supportive Housing Program grants based on her estimation of the grants she work on. Although Colorado Coalition charged the Supportive Housing Program grants for a 100% of her time, her duties as outlined in her

position description include other activities that are not directly related to providing supportive services.

According to her assigned duties, and identified by discussions with the Director of Family Supportive Services, her duties included activities not eligible for funding under the grant. For example, monitoring programs to assure project goals and objectives are met, performing public relations, marketing Colorado Coalition and Family Supportive Services, preparing annual reports, hiring personnel, authorizing expenditures for supportive services (i.e. processing the bills/invoices for expenses), preparing proposals for funding of staff positions and supportive services.

The Director's time spent for grant administrative activities, such as preparing annual reports and reviewing and approving invoices for grant funds, are allowable only as administrative costs (which are limited) per the Supportive Housing Program Regulations and further outlined as allowable in HUD Supportive Housing Program Desk Guide. Her time spent on preparing proposals for funding of staff positions and supportive services are ineligible administrative costs per the Desk Guide, as this is part of preparing the application/technical submission. The Desk Guide further clarifies the Supportive Housing Program Regulations by stating the portion of the supervisor's salary that is not associated with working on direct client issues is not eligible.

Appropriateness of HUD Programs' charges could not be determined

Due to Colorado Coalition's lack of salary records that identify the actual grant hours worked on each grant activity or Colorado Coalition activities, we could not determine the appropriateness of the direct hours or the indirect hours charged to the grants.

CCH charged other direct costs not properly supported and/or for ineligible Program costs

In addition, Colorado Coalition charged the grants for other direct costs related to the salaries. Colorado Coalition charged these direct costs based on the employees using the services and in proportion to the employees salary allocation. The direct charges were considered to be improperly supported and/or be ineligible as Supportive Housing Program activity costs. These included phone charges, employee parking, training, and traffic violations. These are briefly discussed:

Phone Charges Our review of the costs charged to the two Supportive Housing Program projects identified that the direct charges for home telephone and cellular phones showed that the costs were not properly supported. For some costs, the telephone charges were allocated to the various projects based on the same unsupported salary allocation method as the employee who incurred the telephone expenses. For others, the telephone costs were allocated on an unidentified basis. To conform to HUD requirements, the telephone charges need to be allocated to the particular programs or projects that directed benefited from such expenses.

CCH also charged ineligible costs to the Supportive Housing Program grants

Employee Parking Costs Colorado Coalition also charged the two Supportive Housing Program projects reviewed for the cost of employee parking. Such costs are not permitted under the Support Housing Program since such costs were not related to carrying out the HUD program. HUD Regulations under 24 CFR 583.120 specify that only costs directly related to providing supportive services to the programs' recipients are eligible.

OMB Circular A-122 Attachment B Paragraph 18 specifically states that the costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees. The regulation also excludes the cost eligibility, as this cost, is not directly related to a client or clients being served. Parking is an indirect cost or a personal cost of an employee going to work. For the grants reviewed, the total parking costs charged include \$1,534 for grant number CO00B15-0178, \$5,138 for grant number CO00B97-0310, and \$1,099 for grant number CO01B00-3011 (charged through 3/31/2002). As a result, the total employee parking costs of \$7,771 charged to the two projects reviewed are ineligible and need to be reimbursed to the HUD funded programs from non-Federal funds. This would also include any similar charges that have been charged to any other HUD funded program.

Colorado Coalition officials expressed to us that they consider the employee parking costs are eligible under Attachment B Paragraph 13 of OMB Circular A-122,

which states, "...other expenses incurred in accordance with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable." As such, Colorado Coalition allocates parking expenses for all employees consistently to all activities of the organization for the improvement of working conditions and the improvement of employee morale. While we understand the rationale used by Colorado Coalition, the requirements in Title 24 of the Code of Federal Regulations, Section 583.120, specify that only costs directly related to providing supportive services to the programs' recipients are eligible. Since the Colorado Coalition employee parking costs are not directly related to providing supportive services to the Supportive Housing Program recipients, such costs are ineligible as a program expense.

Staff Training Colorado Coalition charged ineligible training costs associated with the staff assigned to the two grant supported projects we reviewed. The SHP Desk Guide, Modified November 9, 2000, lists ineligible operating costs, including "recruitment or on-going training of staff." Furthermore, the Supportive Housing Program Regulations require the Supportive Housing Program funds be used for a specific purpose, i.e. to assist the homeless. Our testing of the Lowry grant identified that Colorado Coalition charged the Supportive Housing Program grant for four separate training sessions totaling \$1,675.

Colorado Coalition officials expressed to us that they consider such training costs to be eligible under the provisions of OMB Circular A-122 and that training of their employees is reasonable and necessary for providing high quality services to the clients they serve. The OMB Circular does allow training in general under Federal awards, but the allowability depends on if such costs are permissible under the particular Federal program. The SHP Desk Guide is HUD's interpretation of the Supportive Housing Program Regulations and shows that staff development is not an eligible program cost.

Traffic Violations Fines Colorado Coalition also used limited HUD resources for paying a client's traffic

violation contrary to the Supportive Housing Program Regulations and OMB Circular A-122. Specifically, OMB Circular A-122 Attachment B, Paragraph 10, states the payment of criminal fines is an unallowable expense. Our testing of the Lowry grant identified that Colorado Coalition charged an \$85 traffic violation to the Supportive Housing Program grant.

These examples of improperly supported and/or ineligible costs being charged to the HUD funded program illustrate the need for Colorado Coalition to implement a cost allocation system that will ensure that only properly supported and eligible costs are being charged to particular HUD grant projects.

Improperly supported program costs provided to program subgrantees

Under the Supportive Housing Program, program monies are provided to subgrantees or projects to provide supportive housing to homeless persons. We reviewed the costs and related activities of the subgrantees of two Supportive Housing Program grants. These were the Concord Plaza and Lowry projects. We found that the costs being reimbursed for supportive housing were not properly supported and the costs being funded could not be readily identified as directly benefiting the Supportive Housing Program recipients or clients.

For the Concord Plaza grant, Colorado Coalition provides program funds to the Concord Plaza housing project. Under the HUD grant program, the housing project is to provide 25 units, of the total 75 units in the project, as transitional housing for the program recipients. HUD Regulations, Title 24 Code of Federal Regulations, Section 583.125, stipulate that only the actual operating costs of providing supportive housing for homeless persons are eligible costs. Operating costs include the day-to-day operation of the supportive housing.

However, we found that costs being reimbursed by Colorado Coalition were for the entire cost of some activities that were applicable to the entire project, not just the portion attributed to the HUD funded program. For other costs, Colorado Coalition was funding a fixed percent of the total costs for the entire housing project rather than on a supportable basis that only allocated costs to the applicable program or cost center.

The salary for the project manager of the Concord Plaza housing project was being charged entirely to the HUD program even though the project manager provided services to the housing project operations that were not related to the HUD funded program grant. Only the actual cost of that portion of time spent by the project manager on administering the supportive housing program for the 25 transitional units would be eligible for reimbursement under the HUD program.

The housing project charged one third of all its other operating costs to the HUD funded grant. The percent was based on the fact that the housing project was to provide 25 units, of its total 75 project units (1/3), of transitional housing for recipients under the HUD program. The fixed 33 percent allocation of total costs does not clearly identify the actual costs of housing incurred for the program recipients as required by the HUD Regulations.

The Lowry project charged operating costs in a similar manner. Therefore, the project manager's salary and the 33 percent allocation of total operating costs does not clearly identify the actual costs of providing housing for the program recipients as required by the HUD Regulations.

Reasonableness of the Supportive Housing Program operating costs charges could not be determined

Again, HUD requires that Colorado Coalition accounting records include cost accounting records that are supported by source documentation; and provides accurate, current, and complete disclosure of the financial results of each HUD sponsored project or program activity. Due to the lack of records maintained at the project to separate the operating costs of the Supportive Housing Program from the other programs or activities at the project, we cannot determine the reasonableness of these charges.

HUD nor Colorado Coalition can be sure of accuracy of the charges to the grants

Due to Colorado Coalition's lack of actual detailed supporting documents for staff activities and actual cost for activities at the project, neither Colorado Coalition nor HUD can be sure that the amounts charged to the grant represents the actual source and use of HUD funds.

Follow-up on System and Process for accounting for and allocating costs

We performed follow-up discussions with Colorado Coalition in June 2003, and Colorado Coalition informed us that they have not changed their system or process for accounting for and allocating costs. Colorado Coalition was waiting for our recommendations before implementing the necessary changes to ensure compliance. Since Colorado Coalition had not changed their system or process for allocating costs, we did not perform any additional testing.

Summary

In summary, Colorado Coalition has not maintained actual detailed activity reports for its staff for allocating direct salary costs and other operating and supportive service expenses to its numerous HUD programs and activities. Instead, for the most part, Colorado Coalition has used a schedule of the estimated percentage of time each staff would perform on a specific Colorado Coalition activity or some other arbitrary basis for allocating costs to its HUD programs. As a result, Colorado Coalition is unable to show that only actual costs of providing supportive housing and services for homeless persons are being charged to its HUD funded Supportive Housing Programs.

Based on the numerous Federal programs and projects being administered, Colorado Coalition needs to establish a cost allocation system based on a method that measures the relative degree of benefits received. Employees' salaries must be supported by actual personnel activity reports (i.e. adequately documented) and the allocation must be relative to the benefits received.

Auditee Comments

Colorado Coalition, in connection with the finding section dealing with allocating salary costs, provided an explanation as to the process that they felt was used to allocate salaries during the audit period. While they disagree with our conclusions that they used budgets and estimates for charging direct and indirect salaries and other costs to HUD grants, they stated that new electronic timesheets have been developed, capable of tracking staff time for each activity and allocating it to multiple grants projects and activities. Based on the certification by the employee of the actual time worked for the benefit of the specific grant or program, the proportionate percentage of salary and benefits will be

allocated to the appropriate grant or program in the month that cost is incurred. This system will allow applicable employees to allocate time to both supportive services activities and administrative activities.

This policy change will ensure that only actual costs based on actual time will be used to charge direct and indirect salaries and benefits to grants and programs. In addition, Colorado Coalition stated they believe that their system will meet the requirements we identified and with those in OMB Circular A-122, and the Supportive Housing Program Regulations. Lastly, Colorado Coalition stated estimates or budgets to allocate salaries and benefits would not be used.

Colorado Coalition, in connection with the section of the finding on the allocation of other direct costs, responded that based upon feedback from the HUD OIG, they are purchasing a new cost allocation accounting program with greater capabilities. This Fundware Cost Allocation Manager provides the capacity to directly allocate costs based upon actual time worked by the employee for the benefit of the particular grant or program. Accordingly, other direct costs will be allocated on the same basis as the new salary allocation policy that is being established.

Colorado Coalition disagreed with the position we presented for three types of ineligible program expenditures. These three types of expenditures were employee parking costs, staff training costs, and traffic violation fees.

For the employee parking costs, Colorado Coalition disagreed that the employee parking costs are not permitted under OMB Circular A-122 or the SHP Regulations. Furthermore, Colorado Coalition states that paying for parking costs is a necessary cost of doing business in order to attract and maintain good employees. In addition, it is important to maintain employee morale and at the very least, it is a fringe benefit provided to the employee.

Colorado Coalition further state that the provisions of OMB Circular A-122, Attachment B, Paragraph 13, permits such expenses that are in accordance with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee morale are allowable. They further

contend that the expenses are not for personal use but for the convenience and benefit of the organizations and clients they serve.

In addition, Colorado Coalition disagreed that the parking costs are not eligible since the costs are not directly related to providing supportive services as stated by the OIG in the audit finding. Instead, Colorado Coalition contends that the parking costs are the same as any other employee fringe benefit and are distributed to the HUD grants in proportion to the allocation of staff salaries. Furthermore, Colorado Coalition's states its conclusion is shared by others in the accounting world with whom they have consulted.

For the staff training costs, Colorado Coalition disagree that employee staff training charges are ineligible costs but are permissible under OMB Circular A-122, Attachment B, Paragraph 53. They comment that the OIG is incorrect to assert that such training which improves the quality and effectiveness of services does not "assist the homeless."

For the traffic violation fines, Colorado Coalition states that while the amounts involved are insignificant they believe the use of Supportive Housing Program funds to pay a clients traffic violation is a reasonable use of the HUD monies. Colorado Coalition further explained that many times, fines and other cash obligations are the very barriers that prevent a homeless person from succeeding in transitioning to permanent housing and graduating the program. Furthermore, they outline that without financial assistance in addressing the fines the client would linger in homelessness. Colorado Coalition contends that the OIG is claiming these fines are not allowable under the OMB Circular prohibiting "criminal fines." They do not view the payment as criminal fines but rather as a removal of a barrier to successful transition to permanent housing.

Colorado Coalition indicates in their response to the draft audit report that the SHP Desk Guide referred to in finding is misplaced in that the Desk Guide has no legal status of its own. Furthermore, Colorado Coalition stated the Guide is not provided to grantees, and it is not referenced in the law, the Supportive Housing Program Regulations, or the grant agreement.

In connection with the allocation of Supportive Housing Operating Costs, Colorado Coalition disagreed that their method of allocation of costs of operating supportive housing that is integrated with other affordable housing is not properly supported in accordance with OMB Circular A-122 and the Supportive Housing Program requirements. They further state that the fairest and most practical method of allocating such costs is in proportion to the ratio of Supportive Housing Program units to the non-Supportive Housing Program units. Thus, when there are a total of 75 units in a property and 25 are dedicated as Supportive Housing Program units, allocating 33% of the cost of operating all units to the Supportive Housing Program is reasonable and supportive.

Colorado Coalition details that the OIG suggestion that the operating costs of providing the Supportive Housing Program housing units ought to be separately accounted for by the subgrantee, unit by unit would be cost prohibitive and provide marginal benefit. Colorado Coalition officials disagreed with the term subgrantees in relation to the supportive housing costs.

For the property manager's salary, Colorado Coalition provides that the typical staffing pattern for the Loretto Heights and Concord Plaza properties were modified to include a full-time manager and assistant manager for each property. Typically, for a property of their size, only one manager would be assigned to the property. Therefore, it is reasonable to allocate the costs of the additional staff directly to the Supportive Housing Program activity since it directly benefited that activity and would not have been incurred but for that activity.

OIG Evaluation of Auditee Comments

The implementation of a new electronic timesheet to record all staff time based on actual time worked is a positive step. Such a system will need to account for the time for all employees and include the allocation of time to all applicable activities being administered by Colorado Coalition, not just time to Federal grants and related activities.

In like manner, Colorado Coalition's implementation of a new Fundware Cost Allocation Manager will aid in the proper allocation of other indirect costs.

In connection with Colorado Coalition charging the Supportive Housing Program for employee parking, we provided a discussion in the finding on the position claimed by Colorado Coalition. While we understand their rationale, the fact remains that the requirements at Title 24 of the Code of Federal Regulations, Section 583.120, specify that only costs directly related to providing supportive services to the programs' recipients are eligible. Since the Colorado Coalition employee parking costs are not directly related to providing supportive services to the Supportive Housing Program recipients, such costs are ineligible as a program expense.

In connection with staff training being charged as a program expense, we point out in the finding that the SHP Desk Guide lists ineligible operating costs, including "recruitment or on-going training of staff." In addition, we discuss that the Supportive Housing Program Regulations require the Supportive Housing Program funds be used for a specific purpose, i.e. to assist the homeless. As such, the training costs of \$1,675 we identified in our testing of expenditures are considered ineligible.

We further discuss in the finding that the OMB Circular does allow training in general under Federal awards, but the allowability depends if such costs are permissible under the particular Federal program. The SHP Desk Guide is HUD's interpretation of the Supportive Housing Program Regulations and shows that staff development is not an eligible program cost.

HUD officials informed us that the SHP Desk Guide has been provided to the Supportive Housing Program grantees. Furthermore, the SHP Desk Guide is posted on HUD's Web site and is to be used by HUD program grantees. The guide provides guidance to grantees on the grantee's implementation of the HUD grant program.

In connection with the payment of a traffic violation fine from a program recipient, we understand the rationale provided by Colorado Coalition in its response to the finding.

However, the use of Supportive Housing Program monies to pay for such a fine is not permitted under OMB Circular A-122, Attachment B, Paragraph 10. As such, the charge of the traffic violation fine payment to the HUD grant program is ineligible.

In connection with the project manager's entire salary for the Concord and Lowry projects being charged to the HUD Supportive Housing Program projects, HUD's program Regulations under Title 24 of the Code of Federal Regulations, Section 583.125 stipulate that only the actual operating costs of providing supportive housing for homeless persons are eligible costs. As such, the entire manager's salary would not be an eligible program cost, only the portion of the salary that was attributable to providing services under the Supportive Housing Program project is an eligible program cost.

In a similar manner, the proportional charging of 1/3 of the other operating costs of the Concord and Lowry projects to the Supportive Housing Program grants would not be an eligible program costs. As stated above, under HUD Regulations, only the actual operating costs of providing supportive Housing for the homeless persons are eligible costs. Also, as stated in the finding, Colorado Coalition's accounting records are to be supported by source documentation and provide accurate, current, and complete disclosure of the financial results of each HUD sponsored project or program activity. Accordingly, Colorado Coalition needs to establish an adequate system that will document and properly account for the actual costs of providing services under the Supportive Housing Program at the Concord and Lowry housing projects.

Since Colorado Coalition officials disagreed with the term subgrantees in relation to the supportive housing costs, we added a footnote to the finding to clarify and define the term subgrantee.

Recommendations

We recommend that the HUD Office of Community Planning and Development:

1A Direct Colorado Coalition to implement an adequate cost allocation system that properly allocates its salary and other related costs to the various HUD Supportive Housing Program grants and activities in conformity with HUD and Office of Management and Budget requirements. This system would ensure:

- Employee time reports are properly supported and salary costs are distributed to the appropriate HUD grant programs based on actual services provided;
- Other operating and supportive costs are properly supported and distributed to the applicable HUD funded programs based on the actual services provided;
- Subgrantees implement adequate cost allocation systems that distribute costs to HUD funded programs based on properly supported costs and for which the provided services are actually provided; and
- Ineligible costs are not included in the direct or indirect charges of the HUD funded program grants.

1B Require Colorado Coalition to reimburse the HUD funded programs for the ineligible employee staff parking, staff training, and traffic violation fines. This should include all such costs charged to the HUD funded programs during the audit period and through the latest date. This includes the \$7,771 for parking, the \$1,675 for training, and \$85 for fines that we identified were charged to the Concord Plaza and/or Lowry projects.

1C Once Colorado Coalition has implemented the recommendations in 1A above, review the revised systems to ensure that the cost allocation system is being properly implemented and in conformity with HUD requirements.

DEFICIENT HUD SUPPORTIVE HOUSING PROGRAM CASH MATCH

HUD requires part of the Supportive Housing Program costs be funded by the grantee and used for eligible grant program activities. These costs range from 20 to 50 percent of total program costs. The Colorado Coalition reported, in the most current Annual Performance Reports reviewed for nine of Colorado Coalition's Supportive Housing Program grant projects, that \$283,235 in cash match funds were provided and used for eligible program activities. However, the cash match funds reported were not supported as expenditures of the particular Supportive Housing Program project, nor were the cash match funds recorded on the individual grant project's books of account. As a result, it is questionable whether the required cash match of \$283,235 for the grant projects reviewed was provided.

Grantees are required to provide a cash match for certain Supportive Housing Program Costs

Under the HUD Supportive Housing Program, grantees are required to share in the operational and supportive housing costs of the program. The grantee must pay for the actual costs not funded by HUD. The amount to be funded by the grantee varies depending upon when the Supportive Housing Program grant was awarded. The match must be in the form of cash payments.

Operating Costs: Prior to grant awards in 2000, Section 583.125 of Title 24 of the Code of Federal Regulations provided that HUD assistance for operating costs of a grant project would be initially available for up to 75 percent of the total cost for the first two years and up to 50 percent of the total costs for the next three years. The grantee must pay the percentage of the actual operating costs not funded by HUD. Because of a Federal law change, Section 583.125 was changed effective June 12, 2000, whereby HUD grant assistance for operating costs would be available up to 75 percent of the total cost in each year of the grant term.

Supportive Costs: Beginning with the 2000 fiscal year Supportive Housing Program awards, grantees are obligated to match by cash source 20 percent of all funding for supportive services (i.e. 25 percent of the SHP award for supportive services). This provision was stipulated as part of the funding availability notice published in the Federal Register on February 24, 2000. This same provision has

Grantees must support they have met the cash match requirements

been incorporated into the HUD grant agreements with Supportive Housing Program grantees.

At the end of each operating year of each Supportive Housing Program grant, the grantee must demonstrate that it has met its match requirement of the costs for that year. This is done by the grantee listing the sources and amounts of the cash contributed toward the costs of operations and supportive services in the Annual Performance Report (APR) submitted to HUD. HUD's Regulations, at Part 84 of Title 24 of the Code of Federal Regulations, outline the requirements for supporting and reporting the cash match within the grantee's financial management system.

Part 84.21 (b) states that a recipient's financial management system shall:

- Provide accurate, current, and complete disclosure of the financial results of each Federally sponsored project or program;
- Maintain records that identify adequately the source and application of funds for Federally-sponsored activities;
- Maintain effective control over and accountability for all funds, property, and other assets; and
- Maintain accounting records that are supported by source documentation.

Part 84.23 (a) states that all contributions shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following:

- Are verifiable from the recipient's records;
- Are not included as contributions for any other Federally-assisted project or program;
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives;
- Are allowable under the applicable cost principles; and
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.

Unrecorded and unsupported Cash Match

For the most current Annual Performance Reports reviewed for the nine Supportive Housing Program grant projects, the cash match funds reported to HUD identified \$83,078 match for supportive services and \$200,157 for operating costs for a

combined total of \$283,235. These amounts are summarized in the following chart listed by the individual grant project:

HUD SHP	Grant Number	APR Reporting Period		Cash Match		
		From	To	Total	Supportive Services	Operating Costs
Concord Plaza	CO00B150178	April 1, 2001	March 31, 2002	\$ 75,213	\$ -	\$ 75,213
Lowry/Loreeto Heights	CO00B970310	October 1, 2000	September 30, 2001	\$ 54,795	\$ -	\$ 54,795
Ruth Goebel House	CO00B970305	January 1, 2001	December 31, 2001	\$ 96,452	\$ 48,227	\$ 48,225
Beacon/Valdez	CO01B903001	September 1, 2000	August 31, 2001	\$ 24,016	\$ 18,966	\$ 5,050
Forest Manor New	CO01B003006	February 1, 2001	January 31, 2002	\$ 8,474	\$ 3,402	\$ 5,072
Forest Manor Expanded	CO01B003007	February 1, 2001	January 31, 2002	\$ 8,474	\$ 3,402	\$ 5,072
Montose	CO01B907001	April 1, 2000	March 31, 2001	\$ 3,793	\$ 3,056	\$ 737
Trinidad	CO01B000003	February 1, 2001	January 31, 2002	\$ 10,491	\$ 6,025	\$ 4,466
Northern Front Range	CO00B970201	January 1, 2001	January 1, 2002	\$ 1,527	\$ -	\$ 1,527
Totals				\$ 283,235	\$ 83,078	\$ 200,157

For the Supportive Housing Program projects tested, the official books of account for the grants only show expenditures funded by the Federal grant award and do not show or reflect any cash match received or used for the Federal grant. The amount of any cash match for a particular Supportive Housing Program grant is only shown in the Annual Performance Report submitted to HUD for the particular grant.

Documentation for the reported cash match for an individual grant could only be obtained from the contributing provider or benefiting entity. We found that the reported cash match was not properly documented in conformity with HUD requirements or in identifying that the claimed match was used for eligible expenditures directly related to the particular Federal Supportive Housing Program grant. With the lack of proper accounting for the claimed cash match and the absence of support to substantiate that the match was used exclusively for eligible program grants, a determination can not be made that the Colorado Coalition provided the required matching funds to meet its obligation under the Supportive Housing Program grant agreements. Therefore, the eligibility of the \$283,235 claimed as cash match for the nine grants we reviewed is questionable.

The deficiencies relating to the cash match can be illustrated with the claimed match for the Concord Plaza project, Supportive Housing Program grant number CO00B150178. The grant accounting records only show operating costs for this grant to be \$75,213. The accounting records do not

show any cash match monies received or expended for this grant. Such entries are to be recorded in order to fully disclose the nature and extent of the cash match as well as comply with the accounting requirements in Part 84, Title 24 of the Code of Federal Regulations.

Based upon the program requirements, Colorado Coalition was obligated to provide an equal amount of cash match for the \$75,213 expensed by the grantee with HUD grant monies. Colorado Coalition reported to HUD in its Annual Performance Report for this grant for the period ending March 31, 2002 that the cash match for this HUD grant consisted of \$35,912 from the grantee and \$39,301 from occupancy charges/fees.

For the \$35,912 grantee provided match, Colorado Coalition detailed that this amount was based upon services provided for the period from April 2001 through March 2002 by the following Colorado Coalition employees:

<u>Colorado Coalition Employee</u>	<u>Percent of Time Charged</u>	<u>Amount of Cash Match</u>
Property Management	33	\$ 14,907
Project Manager	10	4,673
Executive Director	10	11,100
Project Director	20	<u>9,800</u>
Total		<u>\$ 40,480</u>

The time charges by these employees was not supported by time records detailing the nature and extent of services provided for the Concord Plaza grant project. Such documentation is needed not only to meet the accounting requirements required by HUD but also to show that services were actually provided for eligible activities under the Concord Plaza grant. Therefore, the eligibility of the cash match of the \$35,912 is questionable.

Based on Colorado Coalition's payroll distribution, the Executive Director's salary is charged 90 percent to the general administrative account and 10 percent to the Department of Health and Human Services Temporary Assistance for Needy Families grant program. However, in addition to the direct payroll distribution charges, Colorado Coalition is further claiming an additional 10 percent of the

Executive Director's salary as a cash match for each of the HUD funded Concord Plaza and Lowry projects.

The claimed cash match for the Concord Plaza and Lowry projects is not recorded on Colorado Coalition's books of account and not supported by any detailed time records showing the nature and extent of the services provided by the Executive Director for these Federally funded projects as required by HUD requirements. Therefore, the eligibility of the salary cash match by the Executive Director is questionable.

The time for the Executive Director is further questionable as a cash match for the HUD funded Concord Plaza grant, as well as for the HUD funded Lowry Grant, since the Executive Director's salary is paid by the Colorado Coalition's general administrative account that is funded in part by the five percent administrative fees charged to the individual HUD grant awards. This situation is discussed in Finding 3 below. As a result, the Colorado Coalition may be making duplicate charges for the same amount of time spent by the Executive Director to the Concord Plaza and Lowry grants.

The \$39,301 cash match from occupancy charges/fees was detailed by the Colorado Coalition as representing rental payments paid by residents of the Concord Plaza housing project. The rental funds were used in the operations of the housing project but no support was provided that the revenues were used for eligible expenses directly related to the Concord Plaza HUD grant. Without the monies being recorded on the Concord Plaza grant records and supported by documentation to show that the monies were used only for applicable grant award activities, the eligibility of the \$39,301 in rental revenues as a cash match is questionable.

Accounting system does not account for the cash match

Based upon our review, Colorado Coalition lacks a system in place to ensure the needed cash match funds are obtained and then used for eligible grant activities during the implementation of the particular grant programs. Instead, the grantee uses the HUD grant monies to fund all the activities of the particular grant, and the cash match for the Supportive Housing Program grants are only identified at the end of each yearly grant period on reports to HUD as being available. Such cash match, and its use for only eligible program

activities, is an unsupported non-financial transaction that is not recorded on the HUD grant award's books of account.

The net effect is HUD grant monies funding entire grant activities

According to HUD Regulations, as well as the HUD grant agreements, Colorado Coalition was obligated to provide cash match for the Supportive Housing Program grants and use the cash match to fund verifiable, supported, and eligible activities applicable to the individual HUD grants. In addition, the grantee's financial management system must provide accurate, current, and complete disclosure of the financial results, which include cash contributions, of each Federally sponsored project. This has not been done. Basically, the net effect is the Colorado Coalition has not provided its required funding for the Supportive Housing Program grants; thereby allowing the HUD grant to fund the entire cost of the grant activities.

Procedures for obtaining and using cash match monies are needed

Procedures need to be established whereby Colorado Coalition obtains its required share of its Supportive Housing Program grants during the term of the grant and then to use the cash match monies for eligible activities under the individual grants. In addition, such transactions need to be properly supported and recorded on the official, individual grant's books of account. Had this process been in place, the Colorado Coalition would have been able to clearly show that the \$283,235 in cash match for the nine Federal sponsored projects we reviewed was properly received and directly applied toward specific grant activities and expenditures.

Auditee Comments

Colorado Coalition responded that both HUD and their independent auditors have reviewed their practice multiply times over the years and that none of the reviewers have questioned their process in documenting the Supportive Housing Program cash match. Colorado Coalition state that they have documented sufficient additional matching costs the meet the HUD requirements. This documentation will be provided to HUD as part of the resolution process.

Colorado Coalition expressed disagreement with our conclusion that Colorado Coalition had not provided the required funding for its Supportive Housing Program grants and that HUD has funded the entire cost of the grant

activities. Further, they state that the accounting for the HUD programs is divided into two sections in their accounting system. First, the HUD funded costs are reflected as part of the Supportive Housing Program financials. Second, the non-HUD funded costs have been accounted for according to the funding source funding those costs. The other funding sources require that their funds and costs be reflected in the accounts of that funding source. To record the cash match costs in the Supportive Housing Program as we recommend would be impossible and parallel it to trying to serve two masters. As a result, Colorado Coalition is exploring with accounting professionals appropriate methods to respond to the requests of both funders.

OIG Evaluation of Auditee Comments

Colorado Coalition response to the finding states they have documented additional sufficient matching costs for the nine Supportive Housing Program grants we reviewed and this will be submitted to HUD. This additional documented cash match will need to be reviewed by HUD to insure that the additional costs are: (1) adequately documented and (2) were used solely for Supportive Housing Program activities under the specific HUD grant the costs relate.

Colorado Coalition contends that their cash match cannot be recorded on the accounting records of the HUD grant program since the cash match monies and costs must be reflected on the records of the funding source activity. We disagree. The receipt and use of the cash match monies would need to be recorded on the HUD grant program books of account in order to not only comply with HUD requirements but also to reflect the entire program activity on the HUD grant program accounting records. The contributing source would only need to reflect on its accounting records that the monies were contributed to the HUD grant program.

Recommendations

We recommend that the HUD Office of Community Planning and Development:

- 2A. Require the Grantee to provide adequate supporting documentation for the \$283,235 unsupported match

funds identified for the projects listed above. This support will need to show that such match funds were used exclusively for eligible program activities for each of the Supportive Housing Program projects. If the Grantee is unable to adequately support the match funds reported to HUD, require the Grantee to:

- Reimburse each ongoing Supportive Housing Program sponsored project for the unsupported cash match reported and to use such reimbursement for eligible HUD program activities, or
- Reimburse HUD for the completed/closed Supportive Housing Program grants for the portion of Supportive Housing Program funds that were provided by HUD that should have been paid with grantee cash match funds.

Evidence or such repayments to the HUD program projects and related use will need to be provided to HUD for review and approval.

- 2B. Require the Grantee to implement a financial management system that adequately identifies the source and application of all cash match funds for Federally sponsored activities and provides for accurate, current, and complete disclosure of the cash match activities of each Federally sponsored project or program on the individual HUD grant program books of account. This system would also ensure that cash match funds are used exclusively for eligible activities for the applicable HUD Sponsored Program/Project.

Until Colorado Coalition implements such system, we further recommend that Colorado Coalition be required to submit to HUD, periodically during the HUD grant period, adequate evidence that any required cash match is being provided and used for authorized activities for any applicable HUD grant program. HUD should consider this information and ensure that Colorado Coalition is properly providing and using their appropriate cash match

before any applicable grant monies are released to Colorado Coalition. This would also ensure that all grant activities, funded by both HUD monies and Colorado Coalition cash match are clearly and properly recorded on the HUD grant's official books of account.

- 2C Review the procedures implemented under recommendation 2B above for adequacy and consistency with HUD requirements.

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UNSUPPORTED FIVE PERCENT ADMINISTRATIVE COSTS CHARGED TO HUD GRANTS

Colorado Coalition for the Homeless (Colorado Coalition) has charged the maximum five percent administrative allowance for their administrative fee under the two Supportive Housing Program projects we reviewed, rather than an amount based on actual supported costs. Colorado Coalition has based the five percent administrative total on the yearly budgets and estimates of its total general administrative costs and as such, considers the maximum five percent amount as justified. However, the \$147,551 charged to the two Supportive Housing Program projects during the audit period is not supported by actual supported costs as required by HUD Regulations. As a result, the eligibility of the \$147,551 as a program administrative cost is questionable.

Grantees may use up to five percent of a grant award for administrative costs

Under the provisions of the Supportive Housing Program detailed in Title 24 of the Code of Federal Regulations Section 583.135, the grantee may use up to five percent of the grant award to pay for administrative costs such as accounting, preparing reports to HUD, obtaining program audits, and salaries and related costs for administering the grant. The grantee is also obligated under Title 24 of the Code of Federal Regulations, Section 84.21 to maintain complete and accurate grant records that identify adequately the source and application of grant funds and to ensure that grant monies are supported by source documentation and used solely for authorized purposes.

Office of Management and Budget Circular A-122, Appendix A, specifies that costs charged to a grant award, whether charged as direct or indirect costs, must be fully documented. In addition, Appendix B of the Circular details that grantee salaries and wages chargeable to a grant award are to be supported by documented payrolls and that budget estimates do not qualify as support charges to a Federal grant.

Colorado Coalition considers their grant administrative fee to be the entire five percent

The Colorado Coalition has adopted the practice of withdrawing the maximum five percent of each of its HUD funded grant awards as their administrative fee rather than withdrawing amounts based on the actual supported administrative expenditures directly attributable to the

Supportive Housing Program grants. The withdrawals are transferred to the Coalition's general administrative account and used to offset Coalition's general and administrative expenses.

We reviewed the administrative costs charged to two HUD Supportive Housing Program projects during the audit period. The two projects, referred to as Concord Plaza and Lowry, were funded under three HUD grants, CO00B15-0178, CO00B97-0310, and CO01B00-3011.

During the audit period, the Colorado Coalition charged a total of \$147,551 as administrative fees to the two HUD funded Supportive Housing Program projects. The total administrative fees charged include \$32,584 for grant number CO00B15-0178, \$100,732 for grant number CO00B97-0310, and \$14,235 for grant number CO01B00-3011 (charged through 3/31/2002). The five percent administrative fee is based on annual budget estimates and subsequent unsupported salary costs. As such, the administrative fees being charged to the various HUD funded program grants are not adequately documented, nor specifically identified as being applicable to the program grant charged as required by HUD Regulations and Office of Management and Budget Circular A-122. As a result, the five percent administrative fee is questionable as an eligible Supportive Housing Program grant cost.

The Colorado Coalition considers the five percent administrative fee to be justified and that the administrative costs applicable to the HUD funded project grants exceeds the five percent fee being charged to the HUD grants. The Colorado Coalition each year estimates the total budgeted costs of its direct costs less its budgeted program costs to calculate its general administrative costs. From this total, the estimated cost of Resource Development is subtracted to determine the adjusted general administrative costs for the year. The adjusted general administrative costs is divided by the Total Program Costs to arrive at the percent of general administrative costs in relation to the estimated program costs. This calculated percent for each of the years in our audit period was in excess of five percent. Based upon this calculation, Colorado Coalition considers it is justified in withdrawing the entire maximum five percent of each HUD grant as an administrative fee.

Colorado Coalition's organizational structure involves various related enterprise parties and activities. Colorado Coalition directly owns and operates eleven Not-For-Profit corporations and twelve assistance facilities. The Not-For-Profit organizations own or manage Limited Partnerships, which provide assistance and services that the Colorado Coalition charges to its Federal grants. During the audit period, Colorado Coalition administered 37 HUD grants and 19 other Federal grants for a combined total 56 grants.

Even though Colorado Coalition administers these numerous enterprises, Not-For-Profit corporations, assistance facilities and Federal activities, Colorado Coalition basically uses one overall major cost grouping for its indirect costs. Using this overall major cost grouping, Colorado Coalition calculates that the indirect costs for its HUD Supportive Housing Program grants exceed the five percent limitation stipulated by the grants. Therefore, Colorado Coalition concludes it is entitled to the entire five percent administrative fee authorized by the Supportive Housing Program grant Regulations.

Colorado Coalition's process is inconsistent with OMB Circular A-122 provisions

Under the Colorado Coalition's process, indirect costs attributed to its enterprise activities and non-Federal activities are allocated to the HUD grants such as the Supportive Housing Program activities. This process is inconsistent with the provisions of OMB Circular A-122 and basically allows Federal monies to fund non-Federal activities and costs.

OMB Circular A-122 provides that where an organization, such as Colorado Coalition, has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings. Then the separate cost groupings are allocated individually to the benefiting functions by means of a base that best measures the relative degree of benefit. As such, the indirect costs allocated to each function are then distributed to individual awards and other activities included in that function. Under Colorado Coalition's complex organization and activity structure, several cost grouping would need to be established for the major cost related activities and used to allocate joint indirect costs to the appropriate activities and cost accounts. Salary

costs would be charged to the appropriate cost grouping based upon properly supported time records.

Colorado Coalition has reported to HUD that some administrative staff and officials perform duties that are directly related to the individual Federal program or activities. Such time should be charged directly to the individual Federal program rather than to the indirect cost allocation grouping.

Administrative fees are questionable Supportive Housing Program costs

Without an equitable indirect cost allocation system, the eligibility of the \$147,551 charged as administrative costs to the Supportive Housing Program projects we reviewed is questionable. Colorado Coalition needs to establish an adequate administrative cost allocation system that will properly support its program administrative costs and comply with the HUD Regulations and Circular A-122. Only by doing so, can the Colorado Coalition show that its administrative costs chargeable to the HUD grants are properly supported and within the five percent HUD limitation.

Indirect Cost Proposal approved by HUD is insufficient

Subsequent to our site audit work, the Colorado Coalition prepared an indirect cost proposal that was submitted in February 2003 to HUD for their review. On April 21, 2003, HUD granted provisional approval on the indirect cost proposal. HUD conditioned the approval that the plan was subject to revision should it be found necessary due to a subsequent audits or reviews.

We performed a review of the Colorado Coalition's indirect cost plan as provisionally approved by HUD. We noted that the indirect cost plan was deficient in several areas. More specifically, the plan:

- Did not identify all of the various programs and activities being administered by the Colorado Coalition;
- Did not identify the various cost groupings for the various organization functions being administered by Colorado Coalition, such as non-Federal programs, HUD programs, other Federal programs, various Colorado Coalition enterprise activities, etc. and the basis for allocating costs between the various cost groupings; and

- Identifies that costs are to be allocated based upon projected budgets rather than actual supported salary costs.

Based upon our review, Colorado Coalition needs to revise its indirect cost plan to correct these noted deficiencies and bring the plan into conformity with Federal requirements and to resubmit the plan to HUD for review and approval.

Auditee Comments

Colorado Coalition in their written response to this finding felt that the finding mischaracterizes their process in charging administrative costs to the HUD Supportive Housing Program grants. Colorado Coalition disagreed they charge administrative costs based on yearly budgets and estimates rather than on actual supported costs. Instead, they charge indirect administrative costs based on actual administrative costs incurred during the month and allocated to all grants and costs objectives on a consistent basis. Accordingly, Colorado Coalition charges the first five percent of indirect administrative costs to the Supportive Housing Program grants and the balance to their general fund. Therefore, Colorado Coalition believes that their allocation of administrative costs is in accordance with HUD Regulations, OMB circulars, and the grant agreements.

Colorado Coalition comments that it has hired an expert in Federal indirect cost allocations who concurs that their approach is both reasonable and in accordance with OMB Circular A-122. Further Colorado Coalition considers that their indirect cost proposal as submitted to and conditionally approved by HUD is not deficient. They further state that they believe that the administrative costs reflected in the indirect cost pool benefit all Colorado Coalition's programs on a proportionally equal basis.

OIG Evaluation of Auditee Comments

The finding discussed above points out that Colorado Coalition charges its HUD funded Supported Housing Program grants the maximum 5 percent administrative fee amount and records this amount as the administrative costs of the particular HUD grant. Under the HUD program Regulations, Colorado Coalition may charge administrative

costs up to a maximum of 5 percent of the grant. The Regulations stipulate that costs must be properly supported. Colorado Coalition is charging the maximum amount without identifying and documenting what specific administrative costs apply to the HUD grant. Therefore, HUD program requirements are not being met.

Colorado Coalition has taken steps to formulate an indirect cost allocation plan including utilizing an expert in Federal indirect cost allocations. This expert is reported to concur in the approach Colorado Coalition is using. Although, we agree with the overall approach, the actual indirect cost proposal submitted by Colorado Coalition to HUD, including several minor changes, still needs to be modified. Based upon our review of the indirect cost proposal and as stated in the finding, the proposed plan:

- Does not identify all of the various programs and activities being administered by the Colorado Coalition;
- Does not identify the various cost groupings for the various organization functions being administered by Colorado Coalition, such as non-Federal programs, HUD programs, other Federal programs, various Colorado Coalition enterprise activities, etc. and the basis for allocating costs between the various cost groupings; and
- Identifies that costs are to be allocated based upon projected budgets rather than actual supported salary costs.

These areas would need to be addressed in the indirect cost proposal with the revised plan being submitted to HUD for review and concurrence.

Recommendations

We recommend that the HUD Office of Community Planning and Development:

- 3A. Require the Grantee to provide adequate supporting documentation (based on actual costs not budgets or estimates) for the five percent administrative costs totaling \$147,551 being charged to the two HUD grants reviewed. If the Grantee is unable to adequately support for the administrative fees, require the Grantee to reimburse each Supportive

Housing Program sponsored project for the unsupported administrative fees. Accordingly, evidence of such reimbursement should be furnished to HUD.

- 3B. Rescind HUD's April 21, 2003 provisional approval of Colorado Coalition's indirect cost proposal and require the Grantee to implement an equitable allocation system for its administrative charges that is in conformity with HUD requirements. This would include a system that is not based on unsupported budgeted estimates but on actual supported costs as well as include cost centers for all its grants and activities. Until such system is implemented by Colorado Coalition, we further recommend that Colorado Coalition be required to submit adequate documentation for its administrative costs to HUD for HUD's review and approval before any HUD grant monies are released to Colorado Coalition to fund administrative expenses.
- 3C. Review the revised indirect cost proposal submitted to HUD under recommendation 3B above for conformity with HUD requirements and to ascertain that the plan is being properly implemented and followed by Colorado Coalition. In addition, HUD will need to ensure that only allowable indirect costs are being included in the cost pool that is being used to allocate costs to the applicable HUD grant programs.

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Management Controls

In planning and performing our audit, we considered the management controls of Colorado Coalition for the Homeless (Colorado Coalition) to determine our audit procedures, not to provide assurance on their management controls. Management controls are the plan of an 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.

Management Controls Assessed

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

- Adequate identification of the source and application of funds for HUD sponsored activities;
- Maintenance of accounting records including cost accounting records that are supported by source documentation; and
- Provide accurate, current, and complete disclosure of the financial results of each HUD sponsored project or program.

Assessment Procedures

We used the following audit procedures to evaluate Colorado Coalition's management controls:

- Reviewed grantee program files;
- Reviewed and analyzed accounting records;
- Analyzed the supporting documentation for claimed HUD program expenses;
- Reviewed applicable criteria;
- Interviewed various officials and employees of Colorado Coalition, other related parties/entities, and subcontractors;
- Reviewed HUD Community Planning and Development's grant files and related records and data; and
- Interviewed applicable HUD Community Planning Development officials.

Significant Weaknesses

A significant weakness exists if management 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 and maintained, and fairly disclosed in reports.

Our review disclosed significant weaknesses in the following areas:

- Support and allocation of program costs;
- Eligibility of costs; and
- Accounting for the use of grant funds and the related cash match.

The weaknesses are discussed in detail in the Findings section of this report.

Follow Up On Prior Audits

This was the first HUD Office of Inspector General for Audit review of the Colorado Coalition for the Homeless. The Independent Public Accountant expressed unqualified audit opinions on Colorado Coalition's Financial Statements for fiscal years ending December 31, 1999, through 2001. These Independent Public Accountant audits did not identify any findings or reportable conditions. Although the audits did not identify any deficiencies, our review disclosed material weaknesses in Colorado Coalition's accounting of HUD funded activities as discussed in the Findings section above.

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Schedule of Questioned Costs

Recommendation Number	Type of Questioned Cost	
	Ineligible 1/	Unsupported 2/
1B	\$ 9,531	
2A		\$ 283,235
3A		\$ 147,551
Totals	<u>\$ 9,531</u>	<u>\$ 430,786</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or Regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and 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 or clarification of Departmental policies and procedures.

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Auditee Comments



July 24, 2003

Robert C. Gwin
Regional Inspector General for Audit
Office of Inspector General
Rocky Mountain Region
US Department of HUD
633 17th Street, 14th Floor
Denver, CO 80202-3607

RE: Comments to Draft Audit Report

Dear Mr. Gwin:

Enclosed please find a response to the Draft Audit Report issued by your office for the Colorado Coalition for the Homeless. We appreciate the opportunity to provide this information as part of the process.

As you can see, the programs that CCH administer are varied and complex. Likewise, the issues raised by the OIG staff are complex and subject to differing interpretations and conclusions.

The OIG staff have been very professional and helpful during their initial review and the reporting process. We appreciate the courtesy they have shown in this process.

We are hopeful that this response will help clarify those areas in which we disagree with the OIG conclusions and recommendations, as well as outlining those areas where we have made improvements in our accounting systems in response to those recommendations on which we agree. We look forward to continuing to work with both the OIG and HUD CPD staff to resolve these issues.

CCH provides vital services to thousands of homeless persons throughout Colorado each year. It is imperative that we resolve these findings as soon as possible so that these services are not disrupted. We appreciate your efforts to make this happen.

If you have any questions concerning our response, please contact me at (303) 293-2217.

Sincerely,

John Parvensky

Attachments
cc: Guadalupe Herrera

2111 Champa Street Denver, Colorado 80205
Tel: 303-293-2217 Fax: 303-293-2309
TTY: 303-291-6950 www.coloradocoalition.org

**RESPONSE TO HUD OIG DRAFT AUDIT REPORT
COLORADO COALITION FOR THE HOMELESS
July 18, 2003**

GENERAL COMMENTS

1. Colorado Coalition for the Homeless (CCH) currently manages 37 HUD grants and 19 other federal grants. In addition, CCH manages other restricted and unrestricted funding. Each of these funding sources has its own requirements for accounting for funds, and these requirements often conflict with each other. We have attempted to develop a system of accounting for CCH as a whole that meets the requirements of the OMB Circulars, GAAP, and the specific funding regulations. However, often it is extremely difficult if not impossible to meet the requirements of all of these without conflicting with some. OMB Circular A-122 requires among other things that accounting of funds for federal purposes "be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization". We have attempted to apply consistent policies and procedures for accounting for our HUD SHP grants and other federal and non-federal grants.
2. While we acknowledge that in certain instances there were mistakes in the classification or allocation of some costs charged to HUD grants, we believe it is a gross overstatement for the OIG report to say that CCH does not maintain a financial system and records that meet HUD and OMB requirements. In most instances, the HUD and OMB requirements have been met.
3. CCH has attempted to meet the requirements of the HUD SHP regulations and the OMB Circulars. However, when the literal interpretations would cause excessive time and effort to document the allocations of small dollar amounts, and divert limited resources from housing and serving homeless persons to administrative paperwork, we have chosen to err on the side of utilizing our resources to serve homeless persons.
4. CCH provides invaluable services to thousands of homeless persons every year. Most of the criticisms noted in the OIG report deal primarily with whether costs should have been allocated to one SHP grant or another, or from one SHP cost category or another. CCH has taken great care to ensure that limited grant funds and other resources serve as many homeless persons as possible, in the most cost efficient way possible.
5. We believe that the references made by the OIG in the findings to the HUD SHP Desk Guide are misplaced, in that the Desk Guide has no legal status of its own. The Guide is not provided to grantees, and it is not referenced in the law, the SHP regulations or the grant agreement. Indeed, the grant agreement

requires compliance with the HUD regulations and the OMB Circulars, not the Desk Guide.

6. The HUD SHP program has evolved in the 15 years since its enactment in 1987. While the SHP regulations have not materially changed, the interpretations by HUD staff of the meaning of such terms as “operating costs”, “administrative costs” and “supportive services” have changed from year to year, and are applied inconsistently to different components of the same program. Thus, there are different requirements applying to the same type of program based on the initial year of funding, and to different components of the SHP program. This inconsistency, and definitions that defy logic and contradict the principles of GAAP and the OMB Circulars, make it extremely difficult to manage SHP grants. We recommend that HUD CPD review these interpretations to develop a more consistent approach.

The following comments relate to the specific OIG findings and recommendations.

FINDING 1

1. **Allocation of Salary and Fringe Benefits Costs.** It has been the policy and practice of CCH to directly allocate salary and fringe benefit costs to particular grants, cost centers, and programs based on the relative benefit provided by the employee to such grant, cost center, or program. Such allocation is reflected on time sheets signed by the employees certifying that the allocation is a reasonable estimate of the actual work performed. When an employee was assigned to serve families who are funded by a single HUD SHP grant, this process worked well. However, when an employee is assigned to serve multiple families who are funded by multiple HUD grants, the process of allocation and documentation has become unmanageable and beyond the capacity of our current accounting system.

Based on feedback provided by the HUD Community and Planning Development staff in March 2001, CCH changed its process for allocating Supportive Service staff time to its HUD grants. Time sheet allocations were made based on the assignment of staff to the particular SHP grant. Since a case manager is hired to serve a specific number of SHP families whenever they needed assistance, the employee’s time was charged based on their assignments. The actual assignment was tracked monthly and adjustments were made to the allocation to each SHP grant based on the actual assignments.

A case manager hired to provide services for a particular SHP grant needs to be available to provide a service or respond to an emergency at any time. Most times, an SHP participant will not access services on a predictable basis. In order to be responsive to the needs of the homeless participant, it is critical to have the case manager “assigned and ready to provide services”. Thus, the

critical allocation is not the amount of time the employee spent working with an SHP client, but rather the amount of time the employee was available to work with that client. It is on this basis that CCH allocated its staff time for SHP grants – the assignment of the staff to particular program participants. To do otherwise would have reduced the availability of assistance to participants, and created a budgeting nightmare.

However, the HUD OIG has concluded that the changes made by CCH in response to the HUD CPD recommendations still do not meet the requirements of the SHP Program.

Therefore, effective August 1, 2003, CCH has adopted a new policy and for allocating salaries and benefits for all grants and programs. This policy is attached as Exhibit A. The policy provides that each employee must keep track of their actual time devoted to each activity and report this on their timesheets. Management and Accounting staff will apply this after the fact determination of actual work activity to the appropriate grant or program.

New electronic timesheets have been developed, capable of tracking staff time for each activity and allocating it to multiple grants projects and activities. Based on the certification by the employee of the actual time worked for the benefit of the specific grant or program, the proportionate percentage of salary and benefits will be allocated to the appropriate grant or program in the month that cost is incurred. We believe that this system meets the requirements identified by the HUD OIG, the OMB Circular A-122, and the SHP Regulations.

Where an employee is engaged in both supportive services activities and administrative activities, the employee will track each type activity separately, and report the time worked on each activity on their time sheet. This will be used to allocate the salary and benefits costs to the appropriate grant and activity.

While we disagree with the HUD OIG conclusion that CCH used budgets and estimates for charging direct and indirect salaries and other costs to HUD grants, the policy change noted above will ensure that only actual costs based on actual time will be used to charge direct and indirect salaries and benefits to grants and programs. CCH will not use estimates or budgets to allocate salaries and benefits.

2. **Allocation of Other Direct Costs.** There are a number of direct costs that support the supportive services provided by support services personnel. These include the cost of local and cellular telephone calls and the costs of supplies used by support service providers to provide services. In the past, because of the small dollar value of these costs and the substantial cost of time and effort of allocating these costs to multiple grants and programs on a differential

basis, these costs were allocated based on the budgeted time allocation of the employee utilizing those telephones or supplies. Based on the feedback from the HUD OIG, we are purchasing a new cost allocation accounting program with greater capabilities. This Fundware Cost Allocation Manager provides the capacity to directly allocate such costs based on the actual time worked by the employee for the benefit of the particular grant or program. Thus, since the time and salary allocation will be properly allocated in accordance with the new salary allocation policy identified above, the allocation of these related direct costs will also be properly allocated on the same basis.

3. **Allocation of Administrative Costs.** We disagree with the OIG's interpretation of Section 583.120 of Title 24 CFR that the "actual costs of providing supportive services for homeless persons" do not include those direct and indirect costs that support the provision of such services in accordance with OMB Circular A-122. The actual costs of providing supportive services include both the salary of the person providing those services and the direct and indirect costs which allow them to provide such services, consistent with A-122 principles. We do, however, agree that the costs of a supervisor working on grant administrative activities, such as preparing annual reports, are allowable only as administrative costs. We have made changes to ensure that we allocate those grant administrative costs accordingly.
4. **Allocation of Indirect Costs.** We disagree with the OIG conclusion that CCH charged indirect costs to SHP grants based on budgets and estimates. Rather, we charged indirect administrative costs to the SHP grant based on actual administrative costs incurred during the month and allocated to all grants and cost objectives on a consistent basis. Since the SHP grant is limited to 5% administrative costs, we charge the first 5% of actual indirect administrative costs to the SHP grant and the balance to the general fund. This is explained in more detail in the response to Finding 2 below.
5. **Employee Parking Costs.** We disagree that employee parking costs are not permitted under OMB Circular A-122 or the SHP regulations. In most locations employee parking is provided free of charge as part of the facilities cost. However in a downtown location, paid parking is often required due to limited space. In order to attract and maintain good employees, paying for parking costs is a necessary cost of doing business. It is also important to maintaining employee morale. At the very least, it is a fringe benefit provided to the employee.

OMB Circular A-122 Attachment B Paragraph 13 clearly states that "...other expenses incurred in accordance with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable." CCH allocates parking expenses for all employees consistently to all activities of

the organization for the improvement of working conditions and the improvement of employee morale. We disagree that such payments are for the personal use of employees. Rather, they are for the convenience and benefit of the organizations and the clients we serve.

The HUD OIC concluded that these parking costs are not eligible since they are not “directly related to providing supportive services to SHP recipients”. We disagree. In the same way that employee fringe benefits such as health insurance and unemployment insurance are allocable in proportion to the allocation of salary, the parking benefit is allocable to the SHP grant to the same extent as salary. Our conclusion is shared by others in the accounting world with whom we have consulted.

6. **Staff Training Costs.** We disagree that staff training charges are ineligible costs. OBM Circular A-122 Attachment B Paragraph 53 clearly states that “costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, class room, and apprenticeship training, designed to increase the vocational effectiveness of employees . . . are allowable.” Training of employees is reasonable and necessary for providing high quality services to the clients we serve. It is incorrect to assert, as the OIG does, that such training which improves the quality and effectiveness of services does not “assist the homeless”. Indeed, it would be folly to deny the homeless persons served by HUD SHP grants the best trained staff possible.
7. **Traffic Violations Fines.** While the amounts involved are insignificant, we believe that the use of SHP funds to pay a client’s traffic violation is a reasonable use of HUD SHP funds. Many times, fines and other cash obligations are the very barriers that prevent a homeless person from succeeding in transitioning to permanent housing and graduating the program. We can spend all the money in the grant on counseling and other support services, but without financial assistance in addressing these fines, the client will linger in homelessness. The OIG claims that these costs are not allowable under the OMB Circular prohibiting “criminal fines”. We do not see the use of these funds as payment of criminal fines, but rather as the removal of a barrier to successful transition to permanent housing. If the SHP regulations do not allow this use, they should be amended to do so.
8. **Program Costs by “Sub-Grantees”** The OIG inaccurately describes the owner and operator of the supportive housing used by CCH for the reviewed SHP grants as “Sub-grantees”. These housing limited partnerships (Loretto Heights LP and Concord Plaza LP) are not “Sub-grantees”, but rather are “sub-contractors”. CCH has contracted with these entities to provide housing units to SHP eligible clients identified by CCH. CCH, not the sub-contractor, makes the eligibility determination and selection of clients. CCH ensures compliance with the HUD regulations and program requirements. CCH agrees to pay these sub-contractors a specific amount of money for each unit,

based on the cost of providing such units to CCH. Under the OMB circulars, the status of these entities is clearly that of sub-contractors. As such, the cost allocation principles do not apply to these entities.

9. **Allocation of Supportive Housing Operating Costs:** We disagree that our method of allocation of costs of operating supportive housing that is integrated with other affordable housing is not properly supported in accordance with OMB Circular A-122 and SHP requirements. When SHP housing units are integrated with non-SHP housing, the fairest and most practical method of allocating such costs is in proportion to the ratio of SHP units to non-SHP units. Thus, where there are a total of 75 units in a property, and 25 are dedicated as SHP units, allocating 33% of the cost of operating all units to the SHP operating costs is reasonable and supportable. It is not practical to directly account for operating costs for units of housing on a unit by unit basis. Nor is it customary in the housing business to do so. Most costs are not incurred on a unit by unit basis, but rather are incurred for the benefit of all units. When the SHP units are “floating” throughout the complex, rather than discreet units, it becomes nearly impossible to directly track the costs on a unit by unit basis.

The OIG suggests that the operating cost of providing the SHP housing units ought to be separately accounted for by the sub-contractor, unit by unit. Most of these costs, e.g. insurance, utilities, grounds maintenance, taxes, etc. are not unit specific costs, but apply equally to all units. Similarly, property management and maintenance costs are reasonably allocated equally to each unit on a proportional basis. To attempt to track these costs on a unit by unit basis would be cost prohibitive and provided marginal benefit. Since the costs are being incurred by the sub-contractor, CCH as grantee cannot capture those costs for separate allocation. Nor can we reasonable require the sub-contractor to do so. Therefore, we believe that allocating operating costs for SHP units on a proportional basis to all units is both reasonable and allowable under SHP regulations and OMB requirements.

We further believe the allocation of 100% of the property manager’s salary to the SHP operating cost line item is appropriate. Due to the special needs of the SHP clients, and the need to ensure that they did not create a negative impact on the non-SHP residents or the community at large, the typical staffing pattern for the Loretto Heights and Concord Plaza properties were modified to include a full-time manager and assistant manger for each property. Typically, for a property of this size, only one manager would be assigned to the property. Therefore, it is reasonable to allocate the costs of this additional staff directly to the SHP activity since it directly benefited that activity, and would not have been incurred but for that activity.

The agreement between CCH and the sub-contractor provides that CCH will pay to the sub-contractor the proportionate costs of operating the supportive

housing units relative to the non-supportive housing units. Thus, we believe that this allocation is both reasonable and in accordance with both the OMB Circulars and the SHP regulations.

10. **Finding 1 Recommendations:**

1A. As indicated above, CCH is making changes to its cost allocation policy, procedures and systems to address the issues identified.

1B. We do not believe that the cost of staff parking is ineligible, and thus should not be reimbursed.

FINDING 2

1. **Recording of SHP Cash Match.** We understand the criticism of the way CCH documents its cash match for SHP grants. However, our practice has been reviewed by the HUD field office multiple times over the years, and also reviewed by our independent auditors in accordance with OMB Circular A-133. None of these reviewers called this process into question. However, based on the recommendations of the OIG, we will modify the way that we document the cash match in the future.

We have reviewed the cash match reported on the 9 grants reviewed by the OIG, and documented sufficient additional matching costs that meet the requirements of the SHP regulations. We will provide this documentation to the HUD CPD staff as part of the resolution process.

2. We disagree with the OIG conclusion that CCH has not provided its required funding for SHP program grants and that HUD Grant monies are funding the entire cost of the grant activities. The SHP Program funded by HUD includes both HUD funded and non HUD funded activities. In our accounting system, the HUD funded costs have been reflected as part of the SHP program financials, while the non-HUD funded costs have been accounted for according to the funding source funding those costs. OIG is essentially saying that they want these costs reflected in the SHP grant, even though HUD is not funding them. However, the other funding sources are requiring that these funds and costs are reflected in the accounts of that funding source. It is impossible to please both masters in this case. We are exploring with accounting professionals appropriate methods to respond to the requests of both funders.
3. **Recommendation 2A.** As indicated above, we have reviewed the cash match reported on the 9 grants reviewed by the OIG, and documented sufficient additional matching costs that meet the requirements of the SHP regulations. We will provide this documentation to the HUD CPD staff as part of the resolution process.

4. **Recommendation 2B**, recommending that CCH be required to submit to HUD adequate evidence that any required cash match is being provided **prior to** releasing funds to CCH is extremely burdensome to both CCH and HUD, and would potentially interrupt the provision of desperately needed services to homeless families and individuals. CCH incurs approximately \$400,000 in costs each month for all SHP programs, and seeks reimbursement from HUD after the fact. Delaying the reimbursement of these funds would cause a cash flow problem that would threaten continued services. In addition, the availability and flow of cash match funds are uniform throughout the year. Thus, requiring a draw by draw documentation of cash match funds would be beyond the requirements of the SHP regulations.

FINDING 3

1. **Administrative Cost Allocation**. This finding mischaracterizes the process used by CCH to charge administrative costs to the HUD SHP grants.
2. **Use of Estimates Rather Than Actual Costs**. We disagree that we charge administrative costs based on yearly budgets and estimates rather than on actual supported costs. Rather, we charge indirect administrative costs to the SHP grant based on actual administrative costs incurred during the month and allocated to all grants and cost objectives on a consistent basis. Since the SHP grant is limited to 5% administrative costs, we charge the first 5% of indirect administrative costs to the SHP grant and the balance to the general fund

Each month, the total general administrative costs and the resource development costs are allocated to each cost center and each grant in proportion to its overall expenses to the total organization expenses. For any grant, such as SHP, with an administrative cost limit, only the expenses up to that limit are allocated to the grant, and the balance is allocated to the general fund for that project. For the period April 2002, the total general administrative costs were \$342,723 or 5.94% of the program (non-administrative costs). Thus, for each SHP grant, general administrative costs were allocated based on the 5% limit. The balance of administrative costs (0.94%), plus the unallowable resource development costs, was allocated to the general fund. We believe that this is an appropriate allocation of administrative costs to the SHP grants in accordance with HUD Regulations, the OMB circulars and the grant agreements.

3. **Consultant's Concurrence**. We have consulted with an expert in federal indirect cost allocations who concurs that CCH's approach is both reasonable and in accordance with OMB Circular A-122. Mr. Steve Garfinkel worked for the federal government for over 38 years, including as Director of the Office of Cost Determination for the US Department of Labor. He has worked for HUD as a trainer on cost allocation issues. In response to the OIG Finding, he states:

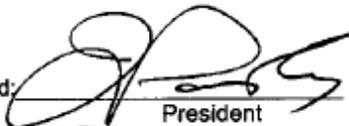
As explained by you and indicated by the indirect cost info, it appears that you are defacto, making allocations prior to finalizing pooled vs. direct items (i.e.: space and associated facilities costs). This is totally acceptable under A-122. Further, if, after allocations such as space, etc., you are left with a pool that is equitably distributable as a single pool with one base, then the government's normal position is "why spend additional money on accounting when that money can be used for program purposes". The only required splitting is between Facilities and Administration when an organization receives more than \$10 million in federal funding of direct costs per A-122, para. D.2.e. The auditors' comments re: several cost groupings need...to be established, is imbedded with their comments re: time distribution. You have stated that you are aware of the shortfall in your time system and that you have/are implementing a corrected system which will satisfy management as well as A-122, other applicable Circulars and any legislative and grant specific requirements. You also, apparently, have the information readily available to split Facilities and Management.

4. **Indirect Cost Proposal.** The OIG claims that the CCH indirect proposal conditionally approval by HUD is deficient. We disagree, as does our expert consultant as noted above. The CCH indirect cost proposal allocates allowable administrative costs to each of CCH's federal and non-federal sources on an equal basis. We believe that the administrative costs reflected in the indirect cost pool benefit all CCH's programs on a proportionally equal basis. To separate out administrative costs for allocation on a differing basis, as apparently suggested by OIG, would contradict OMB Circular A-122. The very reason for setting up the indirect administrative cost pools is to proportionally allocate them on a consistent and equal basis between federal and non-federal grants and programs.
5. **Recommendation 3A.** CCH will provide supporting documentation for the administrative costs based on actual costs, not budgets and estimates.
6. **Recommendation 3B.** We disagree that HUD's provisional approval of CCH's indirect cost proposal should be rescinded. However, we have submitted a revised indirect cost proposal to HUD on July 7th making minor changes based on the advice of Steve Garfinkel. We hope that HUD will approve this revised proposal so we may use it appropriately.



EXHIBIT A 1

HUMAN RESOURCES POLICIES & PROCEDURES

Approved: 
President
Date: 7-11-03

TIMESHEET REPORTING

Purpose

The purpose of this policy is to ensure accurate payment of employees and the accurate charging of employee time to each grant/project for which the employee has worked.

Policy

Each CCH employee will complete a timesheet, noting daily activity, and submit the information to Payroll on the designated "turn in" date.

Employees will report time spent on each grant/project with the appropriate name of the grant/project referenced.

Each employee's timesheet will reflect a total activity for which employees are compensated and which is required based on the employee's FTE.

The time reported should be recorded at the close of business on a daily basis.

The timesheet should be signed by the individual employee and their immediate supervisor.

All time reported will be paid based on Department of Labor regulations under the Fair Labor Standards Act provisions.

Benefit costs will be allocated proportionately to time allocations.

EXHIBIT A 3

		NUMERIC	ALPHA
general admin	010-100		
2100 occup-broadway	010-110		
2111 occup-champa	010-115		
resource dev	010-150		
e&a	010-500		
fair hsg-hud	209-500		
hsg develop	180-801		
ssc-medical	010-200		
ssc-hud lowry	201-200		
ssc-hud-ser on	208-200		
rpmc-property mgt	040-401		
ssc-respite	309-200		
ssc-sts	010-202		
open door	360-202		
ssc-mh	010-225		
ssc-mh hud cm	222-225		
obl-hud	253-225		
oca-hud	258-225		
rec connect	365-225		
qn-mh	010-230		
qn-med	010-240		
beacon place	010-250		
beacon-hud	252-250		
ssc-outreach	010-260		
cabg outreach	326-260		
east vill sec 8	010-325		
fam unif project	010-328		
rental assist	010-330		
rental ass't hud	208-340		
shelter + care	010-340		
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