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U.S. Department of Housing and Urban Development
Office of Inspector General
Pacific/Hawaii Region IX
611 West Sixth Street, Suite 1160
Los Angeles, California 90017

September 12, 2003 MEMORANDUM NO. 2003-LA-1802

MEMORANDUM FOR: William G. Vasquez, Director, Office of Community Planning and Development, 9DD

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, 9DGA

SUBJECT: 1736 Family Crisis Center (FCC)
Supportive Housing Program
Los Angeles, California

INTRODUCTION

Pursuant to your request, we started an audit of FCC's Supportive Housing Program (SHP) operations. The purpose of our audit was to determine whether FCC complied with Federal requirements and grant agreements. We determined FCC did not have adequate controls in place to ensure it would meet these requirements. Specifically, FCC did not (1) adequately account for grant funds; (2) sufficiently establish procedures to ensure only eligible and applicable expenditures were charged to SHP grants; and (3) promptly establish a cost allocation plan to properly allocate indirect cost pools. During our review, with the exception of the implementation of a cost allocation plan, we noted that FCC had already established and implemented accounting systems and procedures to correct these control weaknesses. Because of these actions taken by FCC, we terminated our audit work.

METHODOLOGY AND SCOPE

To accomplish our objectives, we reviewed applicable Code of Federal Regulations (CFR), Office of Management and Budget (OMB) Circulars, Title 42 of McKinney-Vento Homeless Assistance Act, and pertinent HUD regulations and other program requirements. We interviewed responsible officials with the FCC, the Department of Housing and Urban Development's (HUD) Office of Community Planning and Development (CPD), the City of Long Beach, and the Los Angeles Homeless Services Authority (LAHSA).

Over 50 percent of HUD's funding for the FCC was for the SHP. Consequently, we began by focusing our review on seven active SHP grants. However, due to the difficulty in identifying the amount of expenditures separately for each grant and retrieving supporting documentation, we narrowed our review to the three largest SHP grants. We reviewed and analyzed FCC's accounting system, payroll records, and expenditures relating to direct cost expenditures. We also reviewed FCC's drawdowns from HUD and billings for reimbursements from LAHSA and the City of Long Beach.

BACKGROUND

The Supportive Housing Program is authorized under Title IV of the Stewart B. McKinney Homeless Assistance Act. SHP grants are awarded on a competitive basis to develop supportive housing and services that will enable homeless people to live as independently as possible.

HUD is one of several agencies charged with supporting the care and services provided at the state and local levels to address the problem of homelessness. Within HUD, the Office of Community Planning and Development (CPD) is responsible with overseeing the homeless initiatives for the Department.

1736 Family Crisis Center is a non-profit homeless assistance provider, located at 2116 Arlington Avenue, Suite 200, Los Angeles, California. Its mission is to provide shelter and comprehensive counseling services, which may provide up to two years of care, to victims of domestic violence, and runaways and homeless youths between the ages of ten and seventeen.

During our audit period, HUD funded FCC under the following grant programs:

Program Type	Amount
Supportive Housing Programs	$5.6 million
Emergency Shelter Grants	.7 million
Community Development Block Grant	1.4 million
Other	1.8 million
Total	$9.5 million

The audit generally covered the period from March 1999 through June 2003.

RESULTS OF REVIEW

Based on our review, we determined that the FCC did not have adequate controls in place to ensure that it meets Federal requirements and grant agreements. Specifically, FCC did not:

- adequately account for grant funds;
- sufficiently establish procedures to ensure only eligible and applicable expenditures were charged to grant funds; and,

- promptly establish an indirect cost allocation plan to properly allocate indirect costs.

However, we also noted that FCC had established and implemented, or was in the process of implementing, accounting systems and procedures to correct these control weaknesses.

FCC Did Not Adequately Account For Grant Funds

Contrary to OMB Circular A-110, FCC did not establish accounting systems needed to comply with Federal grant requirements. Circular A-110 requires grant recipients to maintain a financial management system that provides accurate, current, and complete disclosure of the financial results of each federally sponsored project. FCC's accounting system did not provide for the recording and accumulating of cost separately by federal contracts. Instead, FCC recorded expenditures into its general ledger system for the total amount incurred without separately identifying the amount charged against each of the grants. As a result, HUD may be unable to adequately monitor whether FCC was properly complying with Federal requirements and grant agreements.

At the time of our audit, however, FCC implemented a new accounting system to record costs separately by individual grants. We found that FCC converted its general ledger system by creating "cost centers" designed to track costs separately amongst each of the grants. Due to its implementation of cost centers, FCC now has the capability to track financial transactions separately.

Based on our review and evaluation of FCC’s new accounting system, we determined the system is adequate and operating as planned; therefore, we are not recommending any further action.

FCC Did Not Sufficiently Establish Procedures For Charging Grant Expenditures

FCC lacked procedures to ensure that only eligible and applicable expenditures were charged against the grants. Specifically, FCC (1) allocated charges for employees’ salaries based on percentage rates that did not reflect actual hours worked, and (2) charged direct operating costs that were not approved in its technical submission budget. As a result, HUD could not be assured that the $535,291 ($444,073–Salaries and $91,218–Direct costs) in expenditures charged against the SHP grants was eligible and actually applicable.

a. <u>Allocation of Salary Costs.</u> Contrary to OMB Circular A-122, FCC did not properly allocate time spent by employees to a particular grant. We sampled 59 personnel activity reports and found that 45 of 59 did not reflect actual hours spent by employees. Instead, charges for salaries were calculated using a predetermined percentage rate that did not reflect the actual number of hours the employees worked on the grants.

During our audit, however, we noted that FCC established and implemented a new procedure for allocating salary costs. Rather than the percentage allocation system, FCC revised and implemented a new timesheet form to record the actual number of hours that employees spent on each grant in order to reflect the proper amount of salaries that should be charged. We believe this new procedure will allow FCC to calculate salary charges to each grant accurately; therefore, we are not making any recommendations for corrective action on this issue.

b. Ineligible Direct Operating Costs. FCC charged over $91,000 in direct operating costs that was neither authorized nor approved by HUD for Grant No. CA16B900029. Prior to the execution of the grant agreement, FCC was required to submit a technical submission report detailing the budgeted amounts for the specific activities involved in carrying out the grant. However, FCC did not adequately monitor its expenses to ensure that grant funds were only spent for costs authorized in its technical submission report. Based on our review, we determined that these charges were neither budgeted nor approved in the technical submission report; therefore, could be considered ineligible.

In your April 23, 2003 monitoring letter to FCC, however, you already questioned about $88,000 of the $91,000 amount. The $3,000 difference relates to additional payments for consultant fees that were not approved in the technical submission report, therefore, could be considered ineligible.

FCC Did Not Promptly Establish an Indirect Cost Allocation Plan

FCC charged all operating expenses to the grant as direct costs. Since FCC administers multiple grants for its shelters, common use items such as office furnishings, computer equipment, and telephones should be charged as indirect costs. This occurred because FCC, City of Long Beach, LAHSA, and HUD officials were of the understanding that direct charging of all expenses is implied in the grant's technical submission.

OMB Circular A-122, Attachment B, Paragraph 15(4), specifically states that capital expenditures for general purpose equipment, such as computer equipment and office furnishings, are unallowable as a direct cost without prior approval of the awarding agency. In addition, Attachment A, Paragraph D 3b(4) of the same Circular states telephone costs are normally charged as indirect expenses.

At the time of our audit, we became aware that FCC requested and received an approval for temporary indirect and fringe benefit rates from the Department of Labor (DOL). DOL has also requested FCC to submit a complete indirect rate proposal to them by August 31, 2003**.** The FCC has already provided us with a copy of this proposal.

RECOMMENDATIONS

Although we are not tracking this memorandum under the Audit Resolution and Corrective Action Tracking System (ARCATS), we are recommending that your office: (1) determine the eligibility of the additional $3,000 in consultant cost identified in item b of this memorandum, and if you determine it to be ineligible, require FCC to repay this amount together with your determination of any disallowed costs included in your April 23, 2003 monitoring letter; and (2) follow-up on FCC's implementation of its indirect cost allocation plan to ensure it is being implemented as planned.

Should you have any questions, please contact Ruben Velasco, Assistant Regional Inspector General for Audit, at (213) 894-8016.