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Audit Case Number	2004-PH-1006

TO: Leroy Brown, Acting Director, Community Planning and Development,
Richmond Office, 3FM

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

SUBJECT: Peninsula AIDS Foundation, Incorporated
Newport News, Virginia

INTRODUCTION

We performed an audit of the Peninsula AIDS Foundation (Foundation), Incorporated at the request of HUD's Richmond Office, Community Planning and Development Division. Our audit objective was to determine if the Foundation expended grant funds in accordance with HUD policies and procedures, and within the terms and conditions set forth in its grant agreement.

To accomplish our audit objective we reviewed applicable federal and HUD regulations, grant agreements, related correspondence, management files and available financial records and documents. We also interviewed responsible HUD program staff, a former member of the Peninsula AIDS Foundation, Incorporated's executive committee, and the executive director of the nonprofit organization currently managing the grant.

We conducted the audit from November 2003 through March 2004. The audit covered the period between July 2001 and March 2004. We expanded the scope of the audit as necessary and performed the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us for each recommendation without a management decision, 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 and 110 days after report issuance for any recommendation without a management decision. Also, please furnish copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact John Buck, Assistant Regional Inspector General for Audit, at (215) 656-3401, extension 3486.

SUMMARY

The Peninsula AIDS Foundation, Incorporated could not demonstrate it expended grant funds in accordance with HUD policies and procedures, and within the terms and conditions set forth in its grant agreement. Our audit identified \$339,661 in questioned costs because the Peninsula AIDS Foundation, Incorporated could not substantiate how it spent:

- Supportive Housing Program funds provided by HUD totaling \$130,892.
- Housing Opportunities for Persons with AIDS Program funds totaling \$208,769.

The Foundation was required to use this funding to assist homeless people with housing and supportive services, and to address the specific housing and other supportive needs of persons living with HIV/AIDS and their families. We have no assurance that the Foundation used all of the funding for these purposes.

HUD became aware of substantial mismanagement and accounting irregularities at the Peninsula AIDS Foundation, Incorporated, and attempted to reassign the Supportive Housing Program grant funds to an organization known as the Greater Peninsula Care Foundation in May 2003. However, HUD determined this Foundation did not have nonprofit status, and therefore it assigned the remaining grant funds to an organization known as Children's AIDS Network Designed for Interfaith Involvement in July 2003. Our audit determined however, that the Peninsula AIDS Foundation, Incorporated did not retain, nor did it provide the Children's AIDS Network Designed for Interfaith Involvement auditable financial records or related documentation. Additionally, the Foundation's Housing Opportunities for Persons with AIDS contract with the city of Virginia Beach expired in June 2003. Here again, the Foundation did not retain, nor did it provide the city auditable financial records or related documentation.

HUD agreed to implement the recommendations we made in this report and it proposed a final action target date of November 17, 2004. We concurred with the target date and consider recommendations in this report to have achieved management decisions.

BACKGROUND

The Peninsula AIDS Foundation, Incorporated was a private nonprofit 501(c)(3) organization¹, located in Newport News, Virginia that became officially inactive on

¹ A 501 (c)(3) organization is an organization that has applied for and been granted exemption from federal income tax if it is organized and operated exclusively for the following purposes: charitable; religious; educational; scientific; literary; testing for public safety; fostering national or international amateur sports competition; or the prevention of cruelty to children or animals.

March 1, 2004. HUD awarded the Foundation a Supportive Housing Program renewal grant totaling \$265,640 in August 2002 and Housing Opportunities for Persons with AIDS grants through the city of Virginia Beach totaling \$249,496 and \$222,906 in July 2001 and July 2002, respectively. Title IV of the Stewart B. McKinney Homeless Assistance Act of 1987 authorized HUD's Supportive Housing Program. The goal of the Supportive Housing Program is to help homeless people by providing them with housing and supportive services such as transportation assistance, food assistance, providing education to the community, and outreach to persons at high risk of infection. HUD established the Housing Opportunities for Persons with AIDS Program in 1992 to address the specific housing and other supportive needs of persons living with HIV/AIDS and their families.

Office of Management and Budget Circular A-122², states that costs must be adequately documented in order to be allowable under federal awards. Office of Management and Budget Circular A-110³ states that financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the federal awarding agency.

FINDING

THE PENINSULA AIDS FOUNDATION, INCORPORATED COULD NOT SUBSTANTIATE HOW IT USED FEDERAL FUNDS

The Peninsula AIDS Foundation, Incorporated could not substantiate how it used \$339,661 of \$353,562 (96-percent) in HUD funds from a Supportive Housing Program renewal grant, and a Housing Opportunities for Persons with AIDS grant. It did not retain, nor did it provide the organization subsequently assigned the Supportive Housing Program renewal grant auditable financial records or related documentation. As a result, there is no assurance that it used \$130,892 in HUD funds to assist the homeless with housing and supportive services as required by the Supportive Housing Program grant agreement. Additionally, the Foundation could not provide documentation showing how it used \$208,769 to address the specific housing and other supportive needs of persons living with HIV/AIDS and their families as required by the grant agreement.

The Peninsula AIDS Foundation, Incorporated Has a History of Financial Management Problems

According to minutes from the Foundation's Board of Directors, and monitoring reports from the city of Norfolk, Virginia, the Peninsula AIDS Foundation, Incorporated has experienced financial irregularities since at least 1999. Board minutes alleged that a prior executive director and business manager improperly confiscated financial records during

² Attachment A, Paragraph A, Subparagraph 2.g.

³ Subpart C – Post-Award Requirements

1999, and the Foundation failed to pay payroll taxes. A monitoring report from the city of Norfolk conducted in February 2001 also revealed the Foundation did not have an accountant to handle day-to-day issues, accounting policies and procedures did not exist, the chart of accounts was not appropriately designed to allocate revenues and expenses to funding source, and it had a past due obligation for audit services.

The Board of Directors recognized it had substantial financial management problems, and passed a resolution on February 20, 2002 to dissolve the Peninsula AIDS Foundation, Incorporated. However, another organization known as the Greater Peninsula Care Foundation was created and chartered on December 12, 2002 for the express purpose of assuming, continuing and expanding upon the operations and the duties of the Peninsula AIDS Foundation, Incorporated. HUD later determined this newly created foundation did not have nonprofit status, and therefore it assigned the remaining grant funds to an organization known as Children's AIDS Network Designed for Interfaith Involvement in July 2003.

The Peninsula AIDS Foundation, Incorporated Could Not Substantiate How It Spent Supportive Housing Program Grant Funds

We found that the Foundation drew down \$142,411 of the \$265,640 Supportive Housing Program renewal grant from March through July 2003. Of the \$142,411, we determined the Foundation could only support disbursements valued at \$11,519. These disbursements were supported because, once HUD Program staff recognized the financial mismanagement at the Foundation, it began closely monitoring disbursements. However, our audit also showed the Foundation failed to substantiate how it spent \$130,892 of the \$142,411 (92-percent) provided by HUD under this grant. These are funds intended to assist homeless people with housing and supportive services as required by the Supportive Housing Program grant agreement.

Due to widespread accounting irregularities at the Peninsula AIDS Foundation, Incorporated, HUD reassigned the administration of Supportive Housing Program grant funds to another nonprofit agency in July 2003, known as the Children's AIDS Network Designed for Interfaith Involvement. However, our audit determined that the Peninsula AIDS Foundation, Incorporated did not retain, and did not give the Children's AIDS Network Designed for Interfaith Involvement, any auditable financial records or related documentation.

The Grant Agreement Assignment between the Children's AIDS Network Designed for Interfaith Involvement and the Peninsula AIDS Foundation, Incorporated, dated July 15, 2003, required the Foundation to make all financial records of the grant available to the U.S. Department of Housing and Urban Development. It also required them to assist with the review of the records when requested. Additionally, Office of Management and Budget Circular A-122² requires grantees to ensure costs are adequately documented. In addition, Office of Management and Budget Circular A-110³ states that records pertinent to an award must be retained for a period of three years from the date of submission of the final expenditure. Since the Foundation did not meet its requirement to maintain and

furnish records, we are concerned that the taxpayer has no assurance it used \$130,892 to assist the homeless with housing and supportive services as required by the grant agreement.

The Peninsula AIDS Foundation, Incorporated Could Not Substantiate How It Spent Housing Opportunities for Persons With AIDS Program Funds

The Foundation could not substantiate how it spent \$208,769 out of \$211,151 (99-percent) of the Housing Opportunities for Persons with AIDS Program funds it received through the city of Virginia Beach for the period July 1, 2002 through June 30, 2003. The Foundation's Housing Opportunities for Persons with AIDS contract with the city of Virginia Beach expired in June 2003. Here again, the Foundation did not retain, nor did it provide the city, auditable financial records or related documentation.

As previously stated, Office of Management and Budget Circular A-122² requires costs to be adequately documented. In addition, Office of Management and Budget Circular A-110³ requires records pertinent to an award to be retained for a period of three years from the date of submission of the final expenditure. Since the Foundation did not meet its requirement to maintain and furnish records, we are concerned that the taxpayer has no assurance it used \$208,769 to address the specific housing and other supportive needs of persons living with HIV/AIDS and their families as required by the grant agreement.

AUDITEE COMMENTS

As stated previously, the Peninsula AIDS Foundation, Incorporated, became officially inactive on March 1, 2004. Therefore, it could not comment on this report. However, HUD agreed to implement our recommendations and proposed a final action target date of November 17, 2004. We concurred with the target date and consider recommendations in this report to have achieved management decisions.

RECOMMENDATIONS

We recommend that HUD:

- 1A. Initiate administrative actions as appropriate against former members of the Board of Directors and Executive Committee of the Peninsula AIDS Foundation, Incorporated to preclude them from participating in any future federal awards.
- 1B. Direct the Children's AIDS Network Designed for Interfaith Involvement and the city of Virginia Beach to provide any additional documentation they may have to justify the unsupported costs of \$339,661.
- 1C. If costs remain unsupported, request guidance from HUD's Office of General Counsel on recovery of the \$339,661 from former members of the Board of Directors and Executive Committee of the Peninsula AIDS Foundation, Incorporated.

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined policies, procedures, control systems, and other management tools implemented to ensure costs associated with federal awards were documented, necessary, and reasonable for proper and efficient performance and administration of the awards, were relevant to our audit objective.

Based on our review, we believe the following items are significant weaknesses.

The Peninsula AIDS Foundation, Incorporated did not:

- Ensure its disbursements were adequately documented, as required by Office of Management and Budget Circular A-122².
- Document or retain documentation such as financial records, supporting documents, statistical records, and all other records pertinent to its federal awards for a period of three years as required by Office of Management and Budget Circular A-110³.

Schedule of Questioned Costs

Recommendation Number	Unsupported 1/
1B	\$339,661
Total	\$339,661

- 1/ Unsupported amounts are not clearly eligible or ineligible, but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs).