
AUDIT REPORT



CONNEXIONS ENTERPRISE, INC.
SUPPORTIVE HOUSING PROGRAM

CHICAGO, ILLINOIS

2004-CH-1005

JUNE 17, 2004

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	June 17, 2004
Audit Case Number	2004-CH-1005

TO: Ray E. Willis, Director of Community Planning and Development, 5AD
Margarita Maisonet, Director of Departmental Enforcement Center, CV

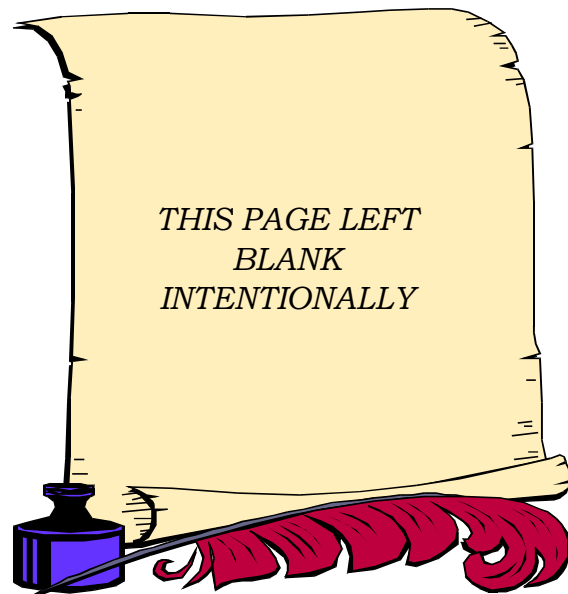
FROM: 
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Connexions Enterprise, Inc.
Supportive Housing Program
Chicago, Illinois

We completed an audit of Connexions Enterprise, Inc.'s Supportive Housing Grant Program. We conducted the audit of Connexions' Program based on a request from HUD's Chicago Regional Office of Community Planning and Development. The objectives of our audit were to determine whether Connexions: (1) had adequate management controls over the Program; (2) obtained matching funds and used Program funds according to HUD's requirements; and (3) Program participants received the in-kind services as set forth in the HUD-approved Grant Application. The audit resulted in four findings.

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 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 Rose Capalungan, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2679 or me at (312) 353-7832.



Executive Summary

We completed an audit of Connexions' Supportive Housing Grant Program. We conducted the audit based on a request from HUD's Chicago Regional Office of Community Planning and Development. The objectives of our audit were to determine whether Connexions: (1) had adequate management controls over the Program; (2) obtained matching funds and used Program funds according to HUD's requirements; and (3) Program participants received the in-kind services as set forth in the HUD-approved Grant Application.

Although Connexions met its cash matching requirements under the Supportive Housing Program (number IL01B110028), we concluded that Connexions lacked adequate management controls to ensure that Program costs were eligible and adequately supported; Program participants received the required services; and its Financial Management Policies and Procedures were followed. Specifically, we determined that Connexions:

- Used \$30,788 of Program funds for ineligible costs;
- Lacked sufficient documentation that its use of another \$174,583 benefited the Program;
- Did not receive the in-kind services for its Program participants as set forth in the HUD-approved Grant Application; and
- Did not ensure that its Chief Executive Officer followed its Financial Management Policies and Procedures.

Supportive Housing Program Was Not Operated According To Requirements

The Board of Directors of Connexions was not actively involved and diligent in monitoring Connexions' operation of the Supportive Housing Program and disbursement of Program funds. Connexions failed to implement adequate controls to ensure: HUD funds were used for eligible and supported Program costs; Program participants actually received the services as committed under the Program; and Financial Management Policies and Procedures were always followed.

Controls Over HUD Funds Were Not Adequate

Connexions failed to maintain sufficient controls over HUD funds designated for its Supportive Housing Program. Connexions used \$30,788 of HUD funds for ineligible Program costs that did not benefit the Program. Also, Connexions lacked sufficient documentation to support that its use of another \$174,583 benefited the Program.

Program Participants Did Not Actually Receive The Services As Committed

Connexions' Chief Executive Officer submitted and certified a Supportive Housing Program Technical Submission that contained inaccurate information, which HUD relied on to award Connexions a renewal Grant totaling \$346,458. As a result, project participants did not actually receive the services as committed. Such services

Financial Management
Policies and Procedures
Were Not followed

Recommendations

included medication management, psychiatric assessments, and evaluation of the Grant for a one-year period.

The Chief Executive Officer did not follow Connexions' Financial Management Policies and Procedures when he signed checks payable to himself and to cash without approval from the Board.

We recommend that HUD's Director of Community Planning and Development, Chicago Regional Office, declares Connexions in default as permitted by the Supportive Housing Program Grant Agreements and recaptures any ineligible Program funds used. HUD's default notice should help ensure that Supportive Housing Program funds are used appropriately.

We presented our draft audit report to Connexions' Board Chairperson, its Chief Executive Officer, and HUD's staff during the audit. We held an exit conference with Connexions' Chief Financial Officer on April 26, 2004. Connexions provided written comments to the draft audit report on May 26, 2004 that generally did not address all the report's findings. We included excerpts of the comments with each finding (see Findings 1, 2, 3, and 4).

The complete text of Connexions' comments is in Appendix B with the exception of attachments. We provided HUD's Director of the Chicago Regional Office of Community Planning and Development with a complete copy of Connexions' comments with the attachments.

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Introduction

Connexions Enterprise incorporated in 1994 as a non-profit organization under the laws of the State of Illinois. Connexions contracts with HUD to provide residential and day treatment programs for homeless persons diagnosed with mental illness and substance abuse. A nine member Board of Directors governs Connexions. Connexions' President and Chief Executive Officer is responsible for carrying out the day-to-day operations and ensuring that Board decisions, policies, rules, and regulations are carried out and communicated to Connexions' staff. Connexions' books and records are located at 1500 West Garfield in Chicago, Illinois.

Audit Objectives

Our audit objectives were to determine whether Connexions: (1) had adequate management controls over its Supportive Housing Grant Program; (2) obtained matching funds and used Program funds according to HUD's requirements; and (3) Program participants received the in-kind services as set forth in the HUD-approved Grant Application.

Audit Scope And Methodology

We conducted the audit at HUD's Chicago Regional Office of Community Planning and Development, and Connexions' previous and current Offices. We performed our audit work between September 2003 and March 2004.

To accomplish our audit objectives, we interviewed HUD's staff, Connexions' staff, and Connexions' provider of in-kind services.

We reviewed Connexions': Supportive Housing Program Grant Applications and corresponding Technical Submissions; Supportive Housing Program Grant Agreements with HUD; Financial Management Policies and Procedures; Annual Progress Reports; Board meeting minutes; By-Laws; Audited Financial Statements for Fiscal Years 2001 and 2002; and Grant vouchers.

We analyzed Grant vouchers to determine whether Supportive Housing Program funds were used appropriately. During our audit, we selected a sample of 42 Grant vouchers from a universe of 93 vouchers using statistical sampling. Based upon our results, we used the One-Step Acceptance statistical sampling method to obtain an additional audit sample of 19 additional vouchers from a universe of 41 vouchers. We also analyzed a sample of 170 checks to determine whether Connexions' Financial

Management Policies and Procedures were followed and check disbursements were adequately supported.

The audit covered the period from May 1, 1999 to November 30, 2003. The period was adjusted as necessary. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the Chairperson of Connexions' Board of Directors, and its President and Chief Executive Officer.

Supportive Housing Program Was Not Operated According To Requirements

The Board of Directors of Connexions Enterprise, Inc. was not actively involved and diligent in monitoring Connexions' operation of its Supportive Housing Grant Program and disbursement of Program funds. Connexions lacked adequate controls to ensure that: HUD funds were used for Program costs; services were provided to Program participants as required; and Financial Management Policies and Procedures were always followed. As a result, HUD lacks assurance that the Program was operated in accordance with HUD's requirements and Connexions' Policies and Procedures.

Federal Requirements

24 CFR Part 84.86 states HUD may terminate grant awards in whole or in part if a recipient materially fails to comply with the terms and conditions of an award. If a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute, regulation, assurance, application, or notice of award, HUD may, in addition to imposing any of the special conditions outlined in 24 CFR Part 84.14, take one or more of the following actions, as appropriate in the circumstances:

- Temporarily withhold cash payments pending correction of the deficiency by the recipient or more severe enforcement action by HUD;
- Wholly or partly suspend or terminate the current award; or
- Take remedies that may be legally available.

24 CFR Part 24.110 permits HUD to take administrative sanctions against employees of recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation that are authorized by 24 CFR Parts 24.300, 24.400, or 24.700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);

- Deficiencies in ongoing construction projects (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance or guarantee, or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);
- Violation of the terms of a public agreement or transaction so serious as to that affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment);
- Any other cause of so serious or compelling a nature that it affects the present responsibility of a person (debarment); or
- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance or guarantees, or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

Grant Agreements

Page 2 of Connexions' April 16, 1999 and May 31, 2002 Grant Agreements permit HUD to take actions when a default occurs. A default is the: (1) use of Grant funds not authorized by the Grant Agreements; (2) failure to provide supportive housing in accordance with 24 CFR Part 583; (3) failure to comply with the Stewart B. McKinney Homeless Assistance Act; and/or (4) misrepresentation of information contained in the Application submissions to HUD which, if known by HUD, would have resulted in these Grants not being provided. Upon due notice of the occurrence of any such default and the provision of a reasonable opportunity to respond, HUD may take one or more of the following actions:

- Direct Connexions to submit progress schedules for completing approved activities;
- Issue a letter of warning advising Connexions of the default, establishing a date by which corrective actions must be completed, and putting Connexions on notice that more serious actions will be taken if the default is not corrected or is repeated;

- Direct Connexions to establish and maintain a management plan that assigns responsibilities for carrying out remedial actions;
- Direct Connexions to suspend, discontinue, or not incur costs for the affected activity;
- Reduce or recapture the Grant;
- Direct Connexions to reimburse the Program accounts for costs inappropriately charged to the Program;
- Continue the Grant with a substitute Recipient of HUD's choosing; or
- Other appropriate action including, but not limited to, any remedial action legally available, such as affirmative litigation seeking declaratory judgment, specific performance, damages, temporary or permanent injunctions, and any other available remedies.

Responsibilities Of Board Of Directors

Connexions' Board of Directors are: (1) charged with ensuring Connexions' integrity and compliance with HUD's requirements, policies, and procedures; and (2) determining the policies, collecting and disbursing funds, and adopting rules and regulations for the conduct of Connexions' business.

Controls Over HUD Funds Were Not Adequate

Connexions used \$30,788 of Supportive Housing Grant Program funds for ineligible expenses, and lacked sufficient documentation that its use of another \$174,583 benefited the Program. The problems occurred because Connexions' Board of Directors was not actively involved and diligent in monitoring its Supportive Housing Program's operations to ensure that adequate controls over HUD funds were implemented. As a result, Grant funds were not always used for the benefit of the homeless and mentally ill Program participants. Also, HUD funds were not used efficiently and effectively (see Finding 2).

Program Participants Did Not Actually Receive The Services As Committed

Connexions' Chief Executive Officer submitted and certified a Supportive Housing Program Technical Submission that contained inaccurate information that HUD relied on before it awarded Connexions \$346,458. The Chief Executive Officer could not adequately explain why the Technical Submission for renewal Grant number IL01B110028 contained inaccurate information. Nevertheless, it was the Chief Executive Officer's responsibility to ensure the truthfulness and accuracy of

Finding 1

information contained in the Grant Application/Technical Submission prior to submitting it to HUD. As a result, HUD lacks assurance that Program participants actually received the services from the provider of in-kind services as committed (see Finding 3).

Financial Management Policies And Procedures Were Not Always Followed

Connexions' Financial Management Policies and Procedures were not always followed. Specifically, the Chief Executive Officer signed checks payable to himself and to cash for personal expenses without approval from a Board member. This occurred because the Board was not involved in monitoring the disbursement of Grant funds. As a result, HUD lacked assurance that Grant funds were used only for the intended purposes (see Finding 4).

Board Was Not Actively Involved In The Operations Of The Supportive Housing Program

Connexions' inadequate control over HUD funds, use of Program funds for ineligible and unsupported costs, and its Chief Executive Director not following policies and procedures could have been avoided if Connexions' Board was actively involved and diligent in monitoring Program operations and fund disbursements. HUD must take immediate action to ensure that Program funds are used solely for the intended purposes. As of April 26, 2004, Connexions' current Supportive Housing Program Grant has a remaining balance of \$906 and such balance needs to be recaptured. Additionally, HUD conditionally awarded Connexions an additional \$173,228 of Program funds in December 2003. These funds should not be provided to Connexions based upon the information contained in this audit report.

Auditee Comments

[Excerpts paraphrased from the comments provided by Connexions on our draft audit report follow. Appendix B, pages 33, 34, 36 and 37, contains the complete text of Connexions' comments for this finding.]

Connexions met HUD's cash matching requirements. Connexions also incurred Grant expenditures that matched the Grant drawdowns with the corresponding back up documents as reflected in our reports to HUD. Further, Connexions follows HUD's policies and procedures in order to keep and maintain its harmonious working relationship with HUD. Our management applies good behavior, honesty, maturity, common sense, and conceptual skills in

managing our services and finances. The strength of our management is its diligence in serving and meeting the needs of the homeless.

Connexions disagrees that due to the Board's inactive involvement and lack of diligence in monitoring its operation of the Program and disbursement of Program funds, Connexions lacked adequate controls to ensure that HUD funds were used for Program costs; services were provided to Program participants; and Financial Management Policies and Procedures were always followed.

Connexions has served at least 3,000 homeless for over the last 10 years and has not experienced any issues with other fund providers, or violations of policies and regulations, or lawsuits questioning its integrity and compliance. Connexions never once received negative reports on clients not receiving adequate and professional service. HUD-OIG's suggestion that Connexions did not always use its funds for the benefit of the homeless and mentally ill participants is not true.

Connexions disagrees with the recommendation relating to an issuance of a notice of default. We believe it would be a harsh decision to issue a default notice when in fact our drawdowns since May 2002 were monitored and approved by HUD. Connexions can support the \$15,784 that HUD-OIG determined to be unsupported costs.

Connexions also disagrees with the recommendation for administrative action against its Board. The Board of Directors is valuable resource when raising funds needed not only to meet HUD's cash matching requirements, but also to stabilize housing for the homeless and mentally ill Program participants.

In most cases, Connexions' Chief Executive Officer signed all checks over a certain amount. Some checks had two signatures except when the Executive Vice President, who was one of the designated check co-signers, resigned. As a result of the resignation, only one person was signing checks. Currently, two people sign the checks.

Connexions did not have enough time to review each of the checks cited in OIG's draft report. However, we were able to

review the checks made payable to the Chief Executive Officer and verified that they were for payroll. Since half of our funds are from non-HUD sources, Connexions is not sure how HUD-OIG used its check review results to determine whether Connexions mismanaged or mishandled HUD funds.

HUD-OIG needs to consider that Connexions is a small agency helping the homeless. Although it has made some unintentional mistakes, Connexions became more accountable and knowledgeable of handling its finances within the last two years.



OIG Evaluation Of
Auditee Comments

We are aware that Connexions has experience in serving the homeless and stated in the report that it met the cash matching requirements. However, Connexions lacked adequate controls to ensure that: HUD funds were used for Program costs; services were provided to Program participants as required; and Financial Management Policies and Procedures were always followed.

We did not suggest in our report that its general funds were not always used for the participants' benefits. We reported instead that Connexions did not always use its HUD funds for the benefits of the homeless and mentally ill participants.

With regards to Connexions' contention that a default notice would be a harsh decision, 24 CFR Part 84.86 states HUD may terminate grant awards in whole or in part if a recipient materially fails to comply with the terms and conditions of an award.

We reviewed the documents that Connexions provided as support for the unsupported costs identified during the audit. As such, we reduced our original reported amount to \$174,583.

The recommendation for administrative action against the Board of Directors was made because the Board was not performing its responsibilities as set forth in Connexions' By-Laws and its Financial Management Policies and Procedures. Most importantly, the Board was not monitoring Program operations and fund disbursements.

Connexions' response did not fully address its Executive Officer's violation of policies and procedures such as signing and making checks payable to himself without the approval of a Board member. After its Executive Vice-President resigned, Connexions' Board failed to take proper actions to ensure that the Chief Executive Officer did not have complete control of the disbursement process. The Board should have appointed a new co-signer to the checking account.

At the time of our audit, Connexions lacked adequate support to determine whether the checks made payable to the Chief Executive Officer were for payroll. We were able to determine that \$14,346 of the \$20,160 in checks lacked adequate support.

We clearly presented in our report how we arrived at our conclusion that Connexions lacked adequate controls over HUD funds. While Connexions may be a small agency, this does not preclude them from following HUD's requirements and the Grant Agreement.

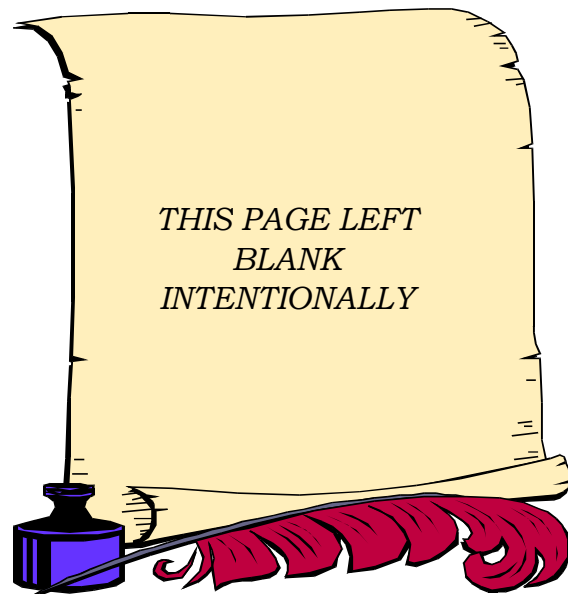
Recommendations

We recommend that HUD's Director of Community Planning and Development, Chicago Regional Office:

- 1A. Issues a notice of default to Connexions as permitted by the Grant Agreements. HUD's default notice should help ensure that \$174,134 (\$906 in remaining Supportive Housing Program funds plus the \$173,228 conditionally awarded in December 2003) is used appropriately.

We also recommend that HUD's Director of Departmental Enforcement Center:

- 1B. Takes administrative action against Connexions' Board of Directors and its Chief Executive Officer for failing to administer the Supportive Housing Program in accordance with Federal requirements.



Controls Over HUD Funds Were Not Adequate

Connexions Enterprise, Inc. used \$30,788 of Supportive Housing Grant Program funds for ineligible expenses and lacked sufficient documentation that its use of another \$174,583 benefited the Program. The problems occurred because Connexions' Board of Directors was not actively involved and diligent in monitoring Connexions' Supportive Housing Program operations to ensure that adequate controls over HUD funds were implemented. As a result, Grant funds were not always used for the benefit of the homeless and mentally ill Program participants. Also, HUD funds were not used efficiently and effectively.

Federal Requirements

24 CFR Part 583.120 states supportive services are designed to address the special needs of the homeless persons to be served by the project. Supportive Housing Program services funds may be used to pay for the actual costs of supportive services and other costs directly associated with providing such services. Costs associated with providing supportive services include salaries paid to providers of supportive services and any other costs directly associated with providing such services.

24 CFR Part 84.53(b) requires the grantee to retain supporting financial documents for a period of three years after the final financial report is submitted to HUD.

24 CFR Part 84.21 states recipients' financial management systems must provide for the following: (1) effective control over and accountability for all funds. Recipients must adequately safeguard all such assets and assure they are used solely for authorized purposes; (2) accounting records that are supported by source documentation; (3) records that identify adequately the source and application of funds for Federally-sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, un-obligated balances, assets, outlays, income, and interest; and (4) written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable cost principles, and the terms and conditions of the awards.

Office of Management and Budget Circular A-122 establishes principles for determining costs of grants with non-profit organizations. Attachment A, paragraph 2, of the Circular states to be allowable, costs must: (1) be

necessary and reasonable; (2) be allocable to Federal awards; (3) be authorized or not prohibited under State or local laws or regulations; (4) conform to any limitations or exclusions set forth by Office of Management and Budget cost principles, Federal laws, terms, and conditions of the Federal award or other governing regulations; (5) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities; (6) be accorded consistent treatment; (7) be determined in accordance with generally accepted accounting principles; and (8) with some exceptions, not be included as a cost or used to meet cost sharing or matching requirements of any Federal award.

Office of Management and Budget Circular A-122, Attachment B, paragraphs 9, 14, 16, and 38 state the following, respectively:

- Contributions and donations by the organization to others are unallowable;
- Costs of amusement, diversion, social activities, ceremonials, and costs relating, such as meals, lodging, rentals, transportation, and gratuities are unallowable;
- Cost of fines and penalties resulting from violation of or failure of the organization to comply with Federal, State, or local laws and regulations are unallowable; and
- Pre-award costs are those incurred prior to the effective date of the award where the costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are eligible only to the extent that they would have been allowable if incurred after the date of the award and only with written approval of the awarding agency.

Grant Agreement

Paragraph 1 of Connexions' Grant Agreement with HUD, effective April 16, 1999, states the purpose of the Grant is to set forth the terms and conditions under which HUD will provide Grant funds to Connexions in connection to the approved project in its Application. Paragraph 5 of the Agreement states Connexions' Grant Application is incorporated into the Grant Agreement. Under Paragraph 7, Connexions agreed to comply with all requirements of the Grant Agreement and to accept responsibility for such compliance by any entities to which it makes Grant funds available. In its Application, Connexions promised HUD it would fill one full-time equivalent employee for each of the

following job positions: (1) Resident Counselor; (2) Case Manager; (3) Clinical Therapist; and (4) Resident Mental Health Worker.

Connexions Met Cash Matching Requirements

Connexions had adequate funds to meet the cash matching requirements. Specifically, during the first year of Program operations under Grant number IL01B110028, Connexions had a total of \$122,073 of non-HUD funds, which were more than the total required matching funds for operating and supportive services. For the first year of the Grant, HUD required Connexions to have \$44,714 in matching funds, including \$18,207 in operating and \$26,507 for supportive services costs.

Sample Selection

We reviewed a total of 61 Grant vouchers with a dollar value of \$383,767. During our audit, we selected a sample of 42 vouchers using attribute sampling, a statistical sampling method. The sample was selected from a universe of 93 vouchers under Grant number IL06B810032 from May 1999 to April 2002. The dollar value of the sample was \$269,634.

Based upon our results, we again used statistical sampling, the One-Step Acceptance method. From a universe of 41 vouchers from May 2002 to November 2003 under Grant number IL01B110028, we selected 19 additional vouchers for review. The dollar value of this sample was \$114,133.

Inappropriate Costs

Contrary to Federal requirements, Connexions inappropriately used \$30,788 of Supportive Housing Program funds for costs that did not benefit its Safe Haven project. The inappropriate costs included \$25,087 of improper supportive services and \$5,701 in improper operating costs as shown in the following table.

<u>Costs</u>	<u>Supportive Services</u>	<u>Operating</u>
Salaries	<u>\$25,087</u>	\$ 689
Entertainment		1,066
Late Charges/Rented Equipment		71
Donation		150
Office Equipment for General Purpose		385
Utility Bills Incurred Prior to Grant's Effective Start Date		309
Training		340
Utility Cost for Non-Safe Haven Building		61
Insurance for non-HUD Approved Employee		263
Books		2,243
Groceries for Non-Safe Haven Project Participants		106
Groceries Already Paid With Food Stamps		<u>18</u>
Totals	<u>\$25,087</u>	<u>\$5,701</u>

24 CFR Part 583.125 states Supportive Housing Program Grant funds may be used to pay a portion of the actual operating costs of supportive housing for up to five years. Operating costs are those associated with the day-to-day operations of supportive housing. They also include the actual expenses a recipient incurs for conducting on-going assessments of the supportive services needed by residents and the availability of such services, relocation assistance including payments and services, and insurance.

Unsupported Costs

Connexions lacked sufficient documentation that its use of another \$174,583 benefited the Program, including \$96,890 under Program Grant IL06B810032; \$13,197 under Program Grant IL01B110028; and \$64,496 from check disbursements.

24 CFR Part 583.135 states up to five percent of any grant awarded under this part may be used for the purpose of paying costs of administering the assistance. Administrative costs include the costs associated with accounting for the use of grant funds, preparing reports for submission to HUD, obtaining program audits, similar costs related to administering the grant after the award, and staff salaries associated with these administrative costs.

24 CFR Part 583.115 states grant funds may be used to pay for the actual costs of leasing a structure or structures, or portions thereof, used to provide supportive housing or supportive services for up to five years.

Board Was Not Actively Involved In The Operation Of The Supportive Housing Program

The expenditure of Supportive Housing Program funds for ineligible and unsupported costs could have been avoided if Connexions' Board was actively involved and diligent in monitoring its Program operations and disbursements.

Eight percent (\$30,788) of the \$383,767 for the 61 vouchers reviewed was used for ineligible costs. An additional 45 percent (\$174,583) was used for costs that lacked adequate supporting documentation.

Three of Connexions' Board members said the Board was actively participating in fund raising. Also, Connexions' Board meeting minutes did not show that the Board was involved in monitoring its Supportive Housing Program's operations and disbursements. Instead, the Board minutes showed it was involved in planning, assisting, or performing fundraising events for Connexions. The Board members were not aware of their responsibilities to monitor Connexions' Supportive Housing Program Grant disbursements; and adopt adequate policies and procedures to ensure that Grant funds were spent in accordance with HUD's requirements.

As a result, HUD's Supportive Housing Program funds were not used efficiently and effectively. Additionally, Program funds were not always available to benefit the homeless and mentally ill Program participants.

Auditee Comments

[Excerpts paraphrased from the comments provided by Connexions on our draft report follow. Appendix B, pages 34 and 35, contains the complete text of Connexions' comments for this finding.]

Connexions is making a good faith effort to meet all HUD requirements. We are unable to provide full and complete documentation for the total unsupported costs because of a computer failure, the inability to locate archived files, and insufficient time to respond to the draft audit report. During

the course of the audit, HUD-OIG did not inform us that we needed to provide documentation for the unsupported expenses.

We implemented several changes in management structures and established new procedures for financial accountability.

OIG Evaluation Of
Auditee Comments

Connexions' Chief Executive Officer was informed verbally and by written correspondences that adequate documentation was needed to support the Supportive Housing Program expenses. In addition, the Chief Executive Officer was informed during a status update meeting in January 2004 that Connexions had not provided sufficient documentation to support all the Supportive Housing Program costs under review.

We reduced the total unsupported costs that we initially reported to \$174,583 based upon the additional documentation provided by Connexions.

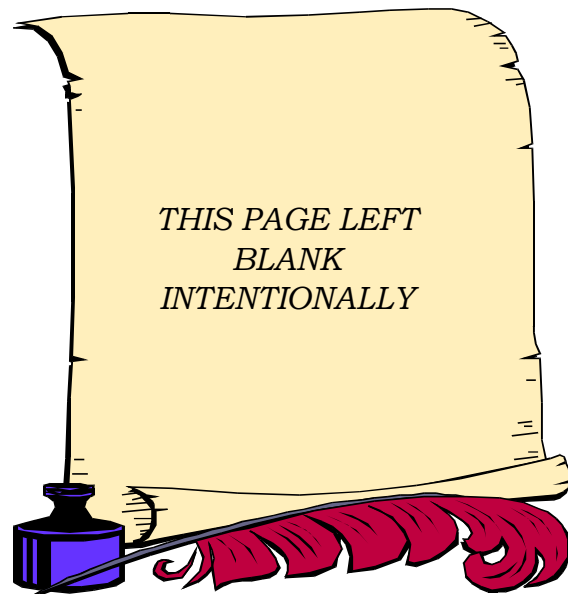
Connexions must implement adequate procedures and controls to ensure it operates its Supportive Housing Program in accordance with Federal requirements.

Recommendations

We recommend that HUD's Director of Community Planning and Development, Chicago Regional Office, ensure Connexions Enterprise, Inc.:

- 2A. Reimburses HUD \$30,788 from non-Federal funds for the ineligible costs cited in this finding.
- 2B. Provides documentation to support that \$174,583 in Grant funds benefited its Supportive Housing Program. If Connexions cannot provide the necessary documentation, then it should reimburse HUD from non-Federal funds for the appropriate amount.
- 2C. Implements adequate procedures and controls to ensure it operates the Supportive Housing Program in accordance with Federal requirements, if HUD

allows Connexions to continue administering the Program.



Program Participants Did Not Actually Receive Services As Committed

Connexions Enterprise, Inc.'s Chief Executive Officer submitted and certified a Supportive Housing Program Technical Submission that contained inaccurate information, which HUD relied on to award Connexions \$346,458. The Chief Executive Officer could not adequately explain why the Technical Submission for the renewal of Grant number IL01B110028 contained inaccurate information. Nevertheless, it was the Chief Executive Officer's responsibility to ensure the truthfulness and accuracy of the information contained in the Grant Application/Technical Submission prior to submitting it to HUD. As a result, HUD lacks assurance that Program participants actually received the services from the provider of in-kind services as committed.

Grant Agreement

Connexions' Grant Agreement with HUD, effective May 31, 2002, states the purpose of the Grant is to set forth the terms and conditions under which HUD will provide Grant funds to Connexions in connection to the approved project in its Application. Paragraph 2 of the Grant Agreement states Connexions' original and renewal Applications are incorporated into the Grant Agreement. Under Paragraph 6, Connexions agreed to comply with all requirements of the Grant Agreement and to accept responsibility for such compliance by any entities to which it makes grant funds available.

HUD-Approved Technical Submission

Page 1 of Connexions' March 25, 2002 Technical Submission required certification of the truthfulness and accuracy of the information contained in the Technical Submission for Project Number IL01B110028.

HUD's Supportive Housing Program Application Process

The 2001 Supportive Housing Program application process had two essential phases. First, eligible organizations submitted applications for Program projects in response to the Continuum of Care Homeless Assistance Notice of Funding Availability. An applicant that was successful in the competition, referred to as a conditionally selected grantee or selectee, then competed in a second phase by providing more detailed technical information not contained in the original application. This Technical Submission document contained all the information HUD required for the second and final phase prior to Grant execution. All selectees, whether funded for a new Program project or for a renewal project, would complete this document. HUD would enter into a Grant

agreement with the selectee once the Technical Submission was completed and approved. Connexions, a conditionally selected grantee, competed in the second phase by providing HUD the required Technical Submission.

In May 2001, the Chief Executive Officer submitted to HUD Connexions' Supportive Housing Program renewal Grant Application. In March 2002, the Chief Executive Officer submitted the Technical Submission associated with the renewal Grant Application, and certified the truthfulness and accuracy of information contained in the Submission.

The Chief Executive Officer Submitted And Certified A Technical Submission Containing Inaccurate Information

The Technical Submission submitted by Connexions' Chief Executive Officer contained inaccurate information. HUD relied on this inaccurate information when it awarded Connexions a \$346,458 renewal Grant.

The Technical Submission included an in-kind commitment letter dated February 23, 2002 from a service provider. This commitment letter indicated that the service provider would provide \$5,000 of in-kind services that included medication management and psychiatric assessments to Connexions' Safe Haven II project clients.

We interviewed the service provider to verify that he provided the services to Connexions' Safe Haven II project clients. He said he did not commit for the provision of medication management and psychiatric assessments to Connexions' Safe Haven II project clients. He also said he is not a physician; therefore, he could not dispense medication or perform psychiatric assessments. The service provider further said he only agreed to provide Connexions' Safe Haven project clients in-kind services by sending volunteers to serve food to the clients and to perform janitorial chores. He confirmed he provided volunteers to serve food to Connexions' Safe Haven project clients and to perform janitorial services.

The Chief Executive Officer said his administrative staff person mistakenly typed the information contained in the February 23, 2002 in-kind commitment letter. He also said he was the one who actually signed the commitment letter on behalf of the service provider because the service provider authorized him to sign the commitment letter. As a result, Connexions' Safe Haven II project clients did not actually

receive the in-kind services as set forth in the February 23, 2002 commitment letter.

HUD relied upon the inaccurate information when it awarded Connexions a \$346,458 Supportive Housing Program Grant. HUD used the signed commitment letter or agreement when it evaluated Connexions' Grant application for project leveraging. The Notice of Funding Availability required HUD to award a conditional selectee such as Connexions who submitted a signed commitment letter or agreement during the application process. As a result, HUD funds were inappropriately provided.

Auditee Comments

[Excerpts paraphrased from the comments provided by Connexions on our draft report follow. Appendix B, page 35, contains the complete text of Connexions' comments for this finding.]

Connexions realizes the mistake it made in the Technical Submission. If we have the opportunity to apply in the future, we will make sure that the information provided is accurate and correct when submitting a grant application.

OIG Evaluation Of Auditee Comments

While Connexions' Chief Executive Officer admits that its Technical Submission contained inaccurate information, HUD relied on this inaccurate information when it awarded Connexions a \$346,458 renewal Grant. Connexions could have informed HUD of the error and amended its Supportive Housing Program Grant Application and Technical Submission to reflect a change in provider or in the services. Additionally, Connexions needs to implement procedures and controls to ensure future submissions to HUD are complete and accurate.

Recommendation

We recommend that HUD's Director of Community Planning and Development, Chicago Regional Office, ensure Connexions Enterprise, Inc.:

- 3A. Implements procedures and controls to ensure future submissions to HUD are complete and accurate, if

HUD allows Connexions to continue administering the Supportive Housing Program.

Financial Management Policies And Procedures Were Not Always Followed

Connexions Enterprise, Inc.'s Financial Management Policies and Procedures were not always followed. Specifically, Connexions' Chief Executive Officer signed checks payable to himself and to cash for personal expenses without approval from a Board member. This occurred because the Board was not involved in monitoring the disbursement of Supportive Housing Grant Program funds. As a result, HUD lacked assurance that Grant funds were used only for the intended purposes.

Connexions' Financial Management Policies And Procedures

The April 1996 Board-adopted Connexions' Financial Management Policies and Procedures require:

- The President/Chief Executive Officer to have a single signature authority up to and including \$2,000 with the exception of the Executive Director's (Chief Executive Officer) personal expense reimbursements, which must be approved by a Board member having check signing authorization (no matter the check amount); and
- The check signer(s) is not the person who writes checks.

Financial Management Policies And Procedures Were Not Followed

The Chief Executive Officer did not follow Connexions' Financial Management Policies and Procedures when he wrote and signed checks payable to himself and to cash without approval from a member of the Board. The Chief Executive Officer also functions as the President of Connexions.

Checks Reviewed

We performed a limited testing of a sample of 170 checks to determine whether Connexions' Financial Management Policies and Procedures were followed, and whether the check disbursements were adequately supported. The 170 checks totaled \$104,041, of which \$64,496 of this total was not adequately supported (see finding 2). There were 10 checks with amounts greater than \$2,000 that lacked approval and a second signature from a Board member. There were 28 checks (\$20,160) payable to the Chief Executive Officer and 11 checks (\$6,965) payable to cash. Of the \$20,160 paid to Connexions' Chief Executive

Finding 4

Officer, \$14,346 lacked adequate supporting documentation. Additionally, \$1,659 of the \$6,965 paid to cash also lacked adequate support.

Furthermore, we found that Connexions' Chief Executive Officer wrote and signed checks for his personal expenses. Specifically, there were 13 checks (\$7,219) made payable to the Chief Executive Officer's various personal credit cards' creditors, and a check (\$600) made payable to himself without approval from the Board.

We were not able to trace whether the checks were disbursed against the Supportive Housing Program funds because Connexions maintained one account for HUD funds and non-HUD funds. Thus, HUD lacked assurance that Grant funds were used only for the intended purposes when the checks were disbursed.

Connexions' Chief Executive Officer said he wrote and signed checks to himself because local merchants such as grocery stores did not accept checks as payments. He also said he wrote checks payable to cash because he was instructed to do so by a HUD Community Planning and Development Representative. HUD's Community Planning and Development Representative said he did not instruct Connexions' Chief Executive Officer to write checks payable to cash. Rather, HUD's Representative said he told the Chief Executive Officer that it would be a poor business practice to sign and write checks payable to cash.

Board Was Not Involved
In Monitoring Grant
Funds' Disbursements

The Chief Executive Officer said he was aware of Connexions' Financial Policies and Procedures. However, he was able to circumvent the Policies and Procedures because Connexions' Board was not involved in monitoring the disbursement of Grant funds. As previously stated, the Board was not involved in monitoring the operations of Connexions' Supportive Housing Program, including the disbursement of Grant funds (see Finding 2).

Auditee Comments

[Excerpts paraphrased from the comments provided by Connexions on our draft report follow. Appendix B, page 35, contains the complete text of Connexions' comments for this finding.]

Since 2002, Connexions followed HUD's guidelines and its policies and procedures for providing documentation to support its drawdowns. Despite a few exceptions, we were able to support our drawdowns. However, we revised our Financial Policy and anticipate implementing the Policy by September 4, 2004 after our Board's review and approval.

OIG Evaluation Of
Auditee Comments

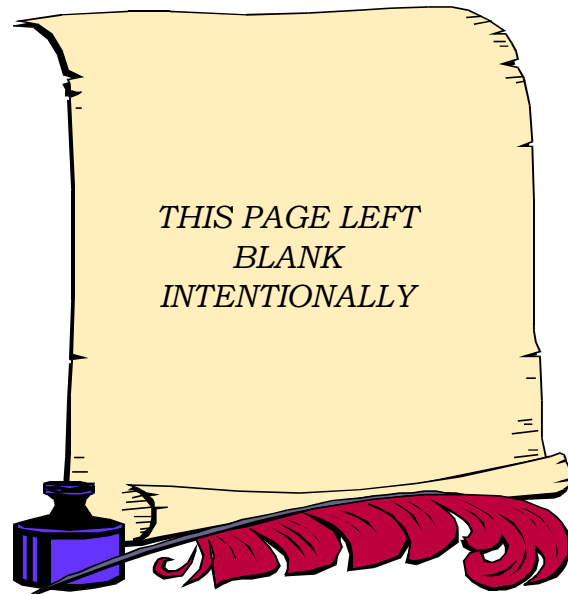
We disagree with Connexions' contention that it followed HUD's guidelines and its policies and procedures. The documentation provided to us supports our conclusion that Connexions' Financial Management Policies and Procedures were not always followed. The Chief Executive Officer wrote and signed checks payable to himself and to cash without approval from a member of the Board. HUD started requiring Connexions in 2002 to provide HUD all supporting documents for its future drawdowns.

The procedures recommended by Connexions, if fully implemented, should improve its financial accountability.

Recommendation

We recommend that HUD's Director of Community Planning and Development, Chicago Regional Office, ensure Connexions Enterprise, Inc.:

- 4A. Implements procedures and controls to ensure its Financial Management Policies and Procedures are followed and its Board provides adequate monitoring of Grant disbursements to ensure that Supportive Housing Program funds are safeguarded against waste, loss, or misuse, if HUD allows Connexions to continue administering the Program.



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.

Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of Connexions' Supportive Housing Program.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

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

- Program Operations

Connexions lacked adequate procedures and controls to ensure that its Supportive Housing Program was operated efficiently and Grant funds were used for eligible costs, adequately supported, and with proper Board oversight (see Finding 1).

- Validity and Reliability of Data

Connexions' Chief Executive Officer submitted and certified a Supportive Housing Program Technical Submission that contained inaccurate information (see Finding 3).

- Compliance with Laws and Regulations

Connexions did not follow HUD's regulations when it paid expenses for ineligible and unsupported costs (see Finding 2).

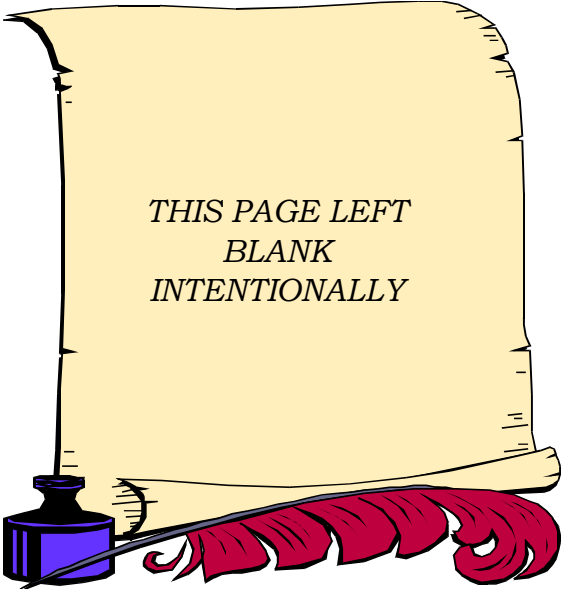
- Safeguarding Resources

Connexions lacked adequate controls to safeguard Grant funds from loss or misuse (see Findings 2 and 4).

Follow-Up On Prior Audits

This is the first audit of Connexions Enterprise, Inc.'s Supportive Housing Program by HUD's Office of Inspector General.

The latest Independent Auditor's Report for Connexions covered the periods ending December 31, 2001 and December 31, 2002. The report contained no findings.



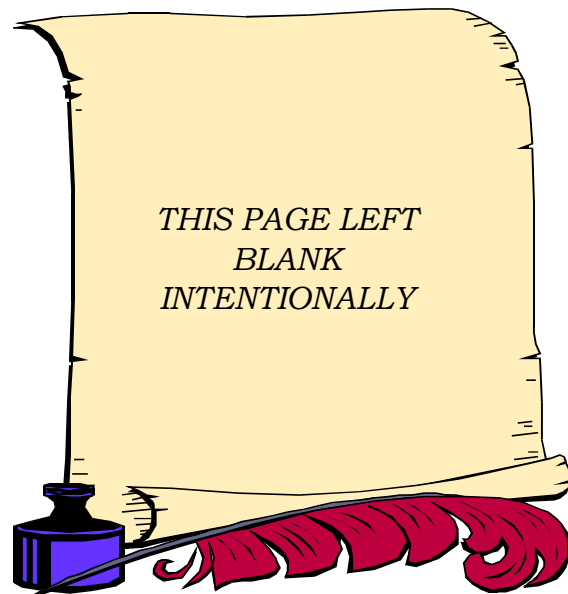
Schedule Of Questioned Costs And Recommendation For Funds To Be Put To Better Use

Recommendation Number	Type of Questioned Costs		Funds To Be Put To Better Use <u>3/</u>
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	
1A			<u>\$174,134</u>
2A	<u>\$30,788</u>		
2B		<u>\$174,583</u>	
Totals	<u>\$30,788</u>	<u>\$174,583</u>	<u>\$174,134</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.

3/ Funds To Be Put To Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.



Auditee Comments

CONNEXIONS ENTERPRISE, INC.
1500 West Garfield Blvd. Chicago, IL 60609 Tel # (773)778-0928 Fax # (773) 778-0942

Dear Ms. Capalungan;

Based on our review and study we would like to make comments as follows:

Prior to obtaining matching funds, Connexions met its cash matching requirements under the Supportive Housing Program. HUD was provided a monthly report based on the expenditures of the organization incurred matching the HUD drawn down with the corresponding receipts attached as backup. Connexions submitted to HUD any documentation they required when it may deem necessary. The organization abide HUD policies and procedures effectively to keep and maintain the harmonious working relationship between HUD and Connexions Enterprise, Inc. The management team as a whole practices good behavior, honesty, maturity, common sense and conceptual skills in managing in the areas of services and finances of the organization. The strength of the management had puts its effort diligently to be better serve and meet the needs of homeless in spite of lack of funds to operate. It is not easy for the organization to continue to operate when facing crucial day-to-day due to short of funds.

Finding #1

We have been serving the homeless over the last 10 years about 3,000 clients, we had no issues regarding fund with any other funders, no violation of policy and regulations, no family member law suits or any other problems that may have questions our level of integrity and compliance, and for HUD to suggest that general funds were not always used for the benefit of the homeless and mentally ill participant, is not so. Our Board of Directors are volunteers in this organization, most of their responsibility is to raise fund to keep the door open and with limit resources and volunteers of their time, we share the SHP Program with them, but the day operation was done by our CEO. The board is more involved in day to day operation but realize their main goal to keep the door open to continue to provide resource to homeless individual where there are limited resources. We have received numerous of awards for our program and never once had we receive negative write-ups or reports on clients not receiving adequate and professional service from this agency. Check the record with the city and state government. Our board

chairman now has initiated a review policy to ensure that the CEO and administrative staff are following HUD guidelines in the federal programs.

Finding #2

We are making a good faith efforts to meet all requirements of regulations, however many of these documents were at least over 3 years old and our attempt to satisfy your request is hard. The files for 1999 and 2001 were a problem, as this is the time when the computer system broke down and we lost files store in the hard drive. We could not locate all items in the storage as a small agency serving individual throughout the year staff changes that perform functions as administrative staff. Due to change in staff the financial system has changed that caused the problems from 1999 – to present, 2004. We had developed several new procedures that we have outlined with Ms. Gilbert and Ms. Capalungan during several conferences throughout the audit procedures. Although we were not informed during the audit procedure to locate for \$177,000 unsupported documents, we have made several attempts to look and match supportive documents but we did not have enough time. We had submit what we have finished by/due date. We have implemented several changes in management structures.

The following are new procedures for financial accountability:

Meetings with Rose Capalunga and Ms. Adrienne Gilbert from office of Inspector General of H.U.D., after Mr. Jones brought issues to the Board of Directors for their recommendations and should occur, the board has approved and shall be effective immediately the following recommendations and dates to occur.

- 1.) Board will review quarterly SHP fund breakdowns of categories and expense, operating, leases supportive service and administrative and approved expenditures.
- 2.) Board will consult with any auditor about revision with one financial policy and procedures manual to be revised by September 1, 2004.
- 3.) Susan Holt will meet with board members to update on H.U.D requirements and breakdown categories for H.U.D expenses.
- 4.) Code of Account
S = Supportive Service L = Leasing
O = Operation A = Administration
- 5.) Explain the new check procedures (review with all board members).

Written Check Administration
Review and Prepare Invoice S. Holt
Signature = Board members
Record = Susan and Ms. Peterson

- 5.) To be sure the account reflects program fund and matches each category.
- 6.) Clear financial account of H.U.D dollars need to be cleared and precise.
- 7.) SHP checking account with H.U.D dollars my 6065286 (reviewed by board of bank statement) quarterly.

Ad.fee Comments Finding #3

We realize the mistake that was made, although the leverage sheet indicated that Dr. Charles Harris, our Psychiatrist who has been with this agency for the past 10 years, see our client, evaluate their medications, because without proper medication, we wouldn't be able to work with 22 mentally ill clients without medication. All of our clients are diagnose with a chronic mental illness, which is enclosed in their file, we have medication sheets for all clients and in order for them to be prescribe a psychotropic medication, their must be a psychiatrist, their documentation is available in each file of their prescription. We will make sure next time if we have the opportunity to apply that the information is accurate and correct.

Finding #4

We have revised our Financial Policy of the agency with an outside accounting agency to revised our policy & procedure, that they are effective and to ensure SHP fund are administer effectively and efficiently. Our new and revised policy will be made available after Board review by September 4, 2004 and will be adopted and implemented.

Since the renewal of this grant in year 2002 to present, Mr. Nunn approved draw down, I believe we have been in guidelines, following policy and procedures, we have provide documents to him in support of our draw down. According to your report from Grant #101B11026, which were the present grant, I believe most and according to your report, with a few exceptions, we were able to support documents of drawn down used for programs and the unsupported amount appeared to be able to be questionable cost in which we are able to justify in our reports.

Finding 1 (additional information)

First of all the CEO, in most cases signed all checks over a certain amount, and some were signed by 2 signatures, except in the case when our Executive Vice-president resigned and for a period of time board members didn't decide who would co-sign the checks. As of now our board chairman and secretary sign checks for SHP programs. We are not sure about such a harsh decision that may be made from H.U.D Directors of Community Planning and Development in issuing a default notice to Connexions, when in fact all of our draw down since May 02- present has been monitored by Mr. Nunn/CPD Representative he only approved draw down with supportive documents which we have provided, and your reports show that since 2002, our unsupported documents total to \$15,784.33 of which we believe we can support these documents because supportive services remain the same for most payroll periods throughout the years and leading cost remains the same.

Also, you recommended that H.U.D acting Director Department Enforcement Center take administrative action against our volunteer board of directors who spend their valuable time to raise funds and match grant dollars so our homeless and mentally ill clients have the resources needed to remain in stable housing. When in fact there are no real resources out there in the community. I believe the board may have not really known that their total responsibilities are to manage the day to day operation of the SHP program. We are seeking legal advice as well about H.U.D program and board responsibility so that we can figure out our actual responsibility with this program. We are awaiting a response from our Attorney Office of Sidney Austin and Brown and Wood to figure out our legal responsibilities and obligations, especially as a volunteer board members.

Check Review Status:

(Part 1)

We didn't have enough time to review each check, but made general notations, some of those check made out to utility companies (people gas, telephone, and electric memos was made and a account number was given to verify SHP account). Checks made out to Tim Jones and stated payroll obvious payroll check and to note that he has time to verify time was worked. Since Connexions had enough matched funds otherword other money, not SHP; we identified a memo of checks whether it was SHP fund or Connexions general account. Since 1999-2002 checks were filed according to sequence number and documented or copies of checks were attached to supportive documents in

each voucher file. Their were over 120 checks written from 99-2001 which requires more time than we are allowed to match each check with documents.

To note that Connexions check #2 for \$5,000.00 was deposited into Connexions general account to Connexions payroll at that time because payroll was coming from another account. To note checks made out to Connexions could only be deposited into Connexions account. I'm not sure how checks review could be used to determine whether Connexions mismanaged or mishandled H.U.D federal dollars because half of the dollars in this account came from other sources than H.U.D, and your report stated we had enough matched fund to operate our program.

In conclusion we didn't have enough time to submit all documents and we still will be working on submitting final documents to support what we believe will be a fair and accurate audit report. This has been a challenge for this organization with an annual budget of less than 400,000 and staff of 11, serving over 50 mentally ill clients at any given time. We hope that your staff consider the fact that being a small agency who mission is to help the homeless and have made some mistakes and not intentionally but in not really understanding sound financial management, but within the last 2 years our office are more accountable and we have a clearer and is knowledgeable about handling our financial situation much better. Mr. Valton Nunn has been an asset in helping us gain a better understanding of accountability, even though his tactics was difficult. Overall we seemed to have gotten the point.



Sincerely Yours,
Tim Jones - President/CEO
Helen Warren - Board Chairman

