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# AUDIT REPORT



UNITED STATES VETERANS INITIATIVE, INC.

SUPPORTIVE HOUSING PROGRAM GRANTEE

INGLEWOOD, CALIFORNIA

2004-LA-1008

SEPTEMBER 27, 2004

OFFICE OF AUDIT  
PACIFIC/HAWAII REGION  
LOS ANGELES, CALIFORNIA

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Issue Date
September 27, 2004
Audit Case Number
2004-LA-1008

TO: Nelson R. Bregon, General Deputy Assistant Secretary for  
Community Planning and Development, D

*Joan S. Hobbs*

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

SUBJECT: United States Veterans Initiative, Inc.  
Supportive Housing Program Grantee  
Inglewood, California

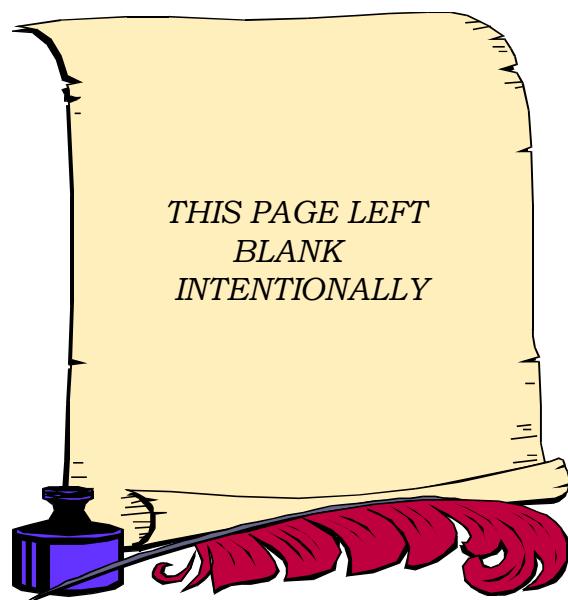
Pursuant to a request from HUD's Honolulu Community Planning and Development Office, we completed an audit of the United States Veterans Initiative, Inc., a Supportive Housing Program grantee based in Inglewood, California. The audit objectives were to determine whether the concerns raised by the Community Planning and Development Office had merit, and to determine whether the U.S. Veterans Initiative, Inc. administered its Supportive Housing Program grants in compliance with the pertinent HUD program requirements and applicable regulations.

Our report contains three findings with recommendations requiring action by your office. 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 corrective action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for each recommendation without a management decision. Also, please furnish us with copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me or Tanya Voigt, Assistant Regional Inspector General for Audit, at (213) 894-8016.

Management Memorandum

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# Executive Summary

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Pursuant to a request from HUD's Honolulu Community Planning and Development Office, we completed an audit of the United States Veterans Initiative, Inc., a Supportive Housing Program grantee based in Inglewood, California. The audit objectives were to determine whether the concerns raised by the Community Planning and Development Office had merit, and to determine whether U.S. Veterans Initiative, Inc. administered its Supportive Housing Program grants in compliance with the pertinent HUD program requirements and applicable regulations.

U.S. Veterans Initiative  
Did Not Meet Supportive  
Housing Program Grant  
Matching Funds

Contrary to federal regulations and grant requirements, U.S. Veterans Initiative was unable to support that it met cash matching funds requirements for any of the \$7,222,590 in Supportive Housing Program grant funds expended during the audit period. We attribute the deficiencies to U.S. Veterans Initiative officials' failure to ensure it understood and complied with the pertinent matching funds requirements, as well as its failure to implement an adequate financial management system to record and track the funds. As a result, this lack of required matching funds prevented U.S. Veterans Initiative from the ability to further carry out eligible activities to enable them to fully meet program goals and requirements to house and support homeless veterans.

U.S. Veterans Initiative  
Spent Supportive Housing  
Program Funds For  
Ineligible And  
Unsupported Expenses

U.S. Veterans Initiative spent at least \$633,348 in Supportive Housing Program funds for ineligible (\$498,248) and unsupported (\$135,100) salaries and other expenses. We attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements, including its failure to establish and implement an adequate financial management system to record and track grant expenditures. As a result, these improper expenditures prevented U.S. Veterans Initiative from carrying out other eligible activities to enable them to fully meet program goals and requirements.

U.S. Veterans Initiative  
Did Not Administer Its  
Supportive Housing  
Program Grants In  
Accordance With  
Requirements

U.S. Veterans Initiative did not administer its Supportive Housing Program grants in accordance with requirements. More specifically, we found that U.S. Veterans Initiative failed to:

- ✓ Develop an adequate financial management system;

- ✓ Comply with procurement and contract administration requirements;
- ✓ Establish and implement indirect cost rates as required; and
- ✓ Close out expired grants.

We attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements. Collectively, these conditions precluded U.S. Veterans Initiative from conducting its Supportive Housing Program activities more efficiently and effectively, as well as prevented U.S. Veterans Initiative from fully meeting its program goals and requirements. In addition, these deficiencies may have contributed to Supportive Housing Program grant funds being spent for ineligible and unsupported grant expenses.

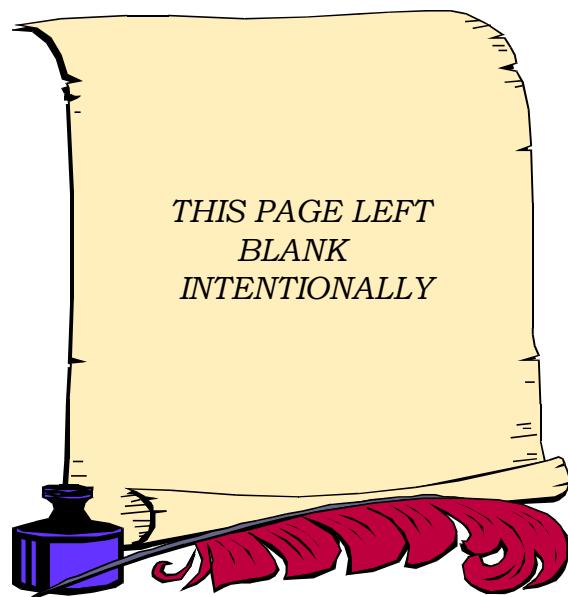
### Recommendations

We are recommending that HUD require U.S. Veterans Initiative, and/or its continuums Los Angeles Homeless Services Authority and City of Long Beach to: (1) repay HUD from non-federal funds for the \$6,589,242 in Supportive Housing Program grant expenditures that did not have the required matching funds, unless it can provide supporting documentation; (2) comply with federal requirements in carrying out its Supportive Housing Program grant activities; (3) reimburse the Supportive Housing Program grants and/or repay HUD from non-federal funds for the \$633,348 in ineligible and unsupported expenses; (4) revise U.S. Veterans Initiative's financial management system; (5) competitively procure the services in the Business Services Agreement; (6) develop and/or update indirect cost rates; and (7) submit financial closeout reports for expired grants.

### Audit Results Discussed With Audittee

We discussed the findings with U.S. Veterans Initiative officials, and their Cantwell-Anderson Inc. accounting Controller during the audit and at an exit conference held on August 6, 2004, which also included the Los Angeles Homeless Services Authority and the City of Long Beach. We also met with U.S. Veterans Initiative on August 18, 2004, and August 31, 2004, to further discuss the findings. We also provided U.S. Veterans Initiative, Los Angeles Homeless Services Authority, the City of Long Beach and HUD with a copy of the draft audit report for comments on

September 1, 2004. We received a written response from U.S. Veterans Initiative on September 15, 2004, disagreeing with our findings. We also received a written response from the Los Angeles Homeless Services Authority on September 15, 2004, in which they disagreed with some issues, particularly with regard to Finding 1, but agreed with others. We received the City of Long Beach's written response on September 14, 2004, disagreeing with Finding 1, but they did not comment on the other two findings. We considered the responses in preparing our final report. We have summarized the three grantees' responses for each finding, and included the complete responses as Appendix H (U.S. Veterans Initiative – without attachments), Appendix I (Los Angeles Homeless Services Authority), and Appendix J (City of Long Beach).



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# Table of Contents

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Management Memorandum	i
Executive Summary	iii
Introduction	1
Findings	
1. U.S. Veterans Initiative Did Not Meet Matching Funds Requirements for \$7.2 Million in Supportive Housing Program Funds Expended	5
2. U.S. Veterans Initiative Spent At Least \$633,348 in Supportive Housing Program Funds for Ineligible and Unsupported Expenses	15
3. U.S. Veterans Initiative Did Not Administer Its Supportive Housing Program Grants In Accordance with Requirements	33
Management Controls	53
Follow Up On Prior Audits	55
Appendices	
A. Schedule of Questionable Costs and Funds Put to Better Use	57
B. Schedule of Active Supportive Housing Program Grants	59

---

C. Schedule of Supportive Housing Program Grant Matching Funds Required and Provided	61
D. Schedule of Ineligible Expenses	63
E. Schedule of Unsupported Expenses	65
F. Schedule of Consulting Expenses Allocated by Grant	67
G. Schedule of Ineligible and Unsupported Expenses by Grant	69
H. Auditee Comments – U.S. Veterans Initiative	71
I. Auditee Comments – Los Angeles Homeless Services Authority	97
J. Auditee Comments – City of Long Beach	103

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# Introduction

## Background

The Supportive Housing Program is authorized under Title IV of the McKinney-Vento Homeless Assistance Act. Supportive Housing Program grants are awarded on a competitive basis to develop supportive housing and services to enable homeless persons to live as independently as possible. Eligible activities include: transitional housing; permanent housing for homeless persons with disabilities; innovative housing that meets the intermediate and long-term needs of homeless persons; and supportive services provided to homeless persons not in conjunction with supportive housing.

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

U.S. Veterans Initiative is a non-profit homeless assistance provider based in Inglewood, California, and is one of the largest organizations in the country dedicated to helping homeless veterans. Currently, they provide assistance at seven facilities located in five states: California, Nevada, Arizona, Texas, and Hawaii. U.S. Veterans Initiative initially began operations on July 16, 1992, as the Los Angeles Veterans Initiative, Inc. On September 24, 1999, they changed their name to United States Veterans Initiative, Inc. U.S. Veterans Initiative was awarded its first Supportive Housing Program grant in 1997, and since then, has administered 18 additional Supportive Housing Program grants, of which 15 were active between July 1, 2001, and December 31, 2003, (our audit scope). In total, U.S. Veterans Initiative has been awarded or administered \$13,565,881 in Supportive Housing Program grants. HUD awarded nine of the fifteen active Supportive Housing Program grants to U.S. Veterans Initiative as direct grants, and the remaining six grants were administered by U.S. Veterans Initiative as the sub-recipient through continuums Los Angeles Homeless Services Authority (four grants) and City of Long Beach (two grants).

Between July 1, 2001, and June 30, 2003, U.S. Veterans Initiative expended over \$21 million in federal funds, from several different sources, as shown:

Funding Source	FY 2002	FY 2003	Total
HUD Supportive Housing Program	\$2,449,075	\$3,120,567	\$5,569,642
HUD CDBG	0	2,594,407	2,594,407
Veterans Affairs	2,837,439	3,214,847	6,052,286
Corporation of National Service	1,858,445	2,302,835	4,161,280
Department of Labor	1,430,930	1,469,418	2,900,348
<b>Total</b>	<b>\$8,575,889</b>	<b>\$12,702,074</b>	<b>\$21,277,963</b>

In March 2003, HUD's Honolulu Community Planning and Development Office conducted a monitoring review of one of U.S. Veterans Initiative's Supportive Housing Program grants, which disclosed significant weaknesses and instances of noncompliance with HUD regulations related to recording and reporting of grant financial transactions. More specifically, the Community Planning and Development Office found that U.S. Veterans Initiative failed to report financial transactions in compliance with the approved grant budget; failed to apply proper cost allocation procedures; and failed to sufficiently support expenses charged to the grant.

### Audit Objectives, Scope and Methodology

The audit objectives were to determine whether the concerns raised by the Community Planning and Development Office had merit and to determine whether U.S. Veterans Initiative administered its Supportive Housing Program grants in compliance with the pertinent HUD program requirements and applicable regulations.

We performed our audit during the period December 2003 through May 2004. The audit scope generally covered the period July 1, 2001, through December 31, 2003, and included 15 Supportive Housing Program grants, totaling \$10,958,258, that were active between May 1, 2000, and December 31, 2003 (see Appendix B). To accomplish our objectives, we performed the following:

- ✓ Reviewed relevant HUD, OMB, and grant agreement requirements and regulations;
- ✓ Interviewed appropriate Community Planning and Development Office officials to obtain an understanding of Supportive Housing Program requirements, and to identify the issues prompting the request for audit;
- ✓ Interviewed U.S. Veterans Initiative officials to obtain an understanding of its operating procedures and practices;
- ✓ Reviewed Community Planning and Development Office and continuum monitoring reports, Annual Progress Reports, and audited financial statements to determine U.S. Veterans Initiative's compliance with Supportive Housing Program requirements, and to identify any findings and any corrective actions taken;
- ✓ Evaluated U.S. Veterans Initiative's indirect cost rates and Business Services Agreement to determine its basis

for costs allocated or charged as Supportive Housing Program grant expenses;

- ✓ Reviewed U.S. Veterans Initiative's financial accounting system, including its chart of accounts and cost code structure, to determine how U.S. Veterans Initiative processed, classified and segregated Supportive Housing Program grant expenses;
- ✓ Selected and reviewed the non-salary grant expenses incurred between July 1, 2001, and December 31, 2003, for the 15 active Supportive Housing Program grants to determine the eligibility of the grant expenses; and
- ✓ Selected and reviewed the salaries and related expenses incurred between January 1 and December 31, 2003, for 14 of the 15 active grants to determine the eligibility of the grant expenses.

Our review was conducted in accordance with generally accepted government auditing standards.



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# U.S. Veterans Initiative Did Not Meet Matching Funds Requirements For \$7.2 Million In Supportive Housing Program Funds Expended

Contrary to federal regulations and grant requirements, U.S. Veterans Initiative was unable to support that it met cash matching funds requirements for any of the \$7,222,590 in Supportive Housing Program grant funds expended during the audit period. We attribute the deficiencies to U.S. Veterans Initiative officials' failure to ensure that it understood and complied with the pertinent matching funds requirements, as well as its failure to implement an adequate financial management system to record and track the funds. As a result, this lack of required matching funds prevented U.S. Veterans Initiative from the ability to further carry out eligible activities to enable them to fully meet program goals and requirements and maximize the effectiveness of the programs intent to house and support homeless veterans.

## Cash Match Requirements

HUD regulations and grant agreements require that grantees must share in the Supportive Housing Program costs. The grantee must pay for the actual program costs not funded by HUD. The cash match can be from federal, state, local or other funding sources, identified in the Supportive Housing Program grant technical submissions. The amount to be funded by the grantee varies depending upon the grant awarded. The cash match requirement is based on appropriation law and grant agreements. Matching funds must be in the form of cash payments.

Beginning with fiscal year 1999, the appropriation for HUD's budget states that in the Supportive Housing Program, "all funding for services must be matched by 25 percent." This provision was stipulated as part of the funding availability notice (Super Notice of Funding Availability) published in the Federal Register/ Vol. 64, No 38/ February 26, 1999 page 9827 and was incorporated into grant agreements. Grant agreements require this appropriation law based on cash match, plus any additional cash match requirements. These cash match requirements are specific to the Supportive Housing Program grant project, and are required to be a firm commitment of cash resources for the first year of the grant term, and certification that cash resources will be provided in the second and third years of the grant term. These commitments and certifications must be submitted as part of

the technical submission. At the end of each operating year, grantees must demonstrate that they have met their match requirements in an Annual Progress Report and within the grantee's financial management system.

24 CFR 84 generally requires the grantee shall:

- ✓ Ensure cost sharing or matching are: 1) verifiable from the recipient's records; 2) not included as contributions for any other Federally assisted project or program; and 3) Necessary and reasonable for proper and efficient accomplishment of project or program objectives;
- ✓ Provide a financial management system that ensures accurate, current, and complete disclosure of the financial results of each Federally sponsored project or program.

Cash Match Requirements  
Not Met

We reviewed the cash matching funds for the 15 active Supportive Housing Program grants included in our audit scope and found that U.S. Veterans Initiative was unable to support that it met cash matching funds requirements for any of the \$7,222,590 in Supportive Housing Program grant funds expended as of December 31, 2003. The required cash match requirements for the fifteen grants included in our audit ranged from 16 to 66 percent of total program costs. These requirements were signed (with certification and/or grant agreements) for availability in the technical submission prior to the issuance of the grant agreement. The funding requirements for these Supportive Housing Program grants were:

✓ Total HUD Supportive Housing Program Funding	\$10,958,258
✓ U.S. Veterans Initiative Cash Match Required	\$ 7,689,624
✓ Total Supportive Housing Program Project Budget	\$18,647,882

We initially reviewed the most current Annual Progress Reports for the 15 grants, which had total expenditures of \$3,720,172, which required cash matching funds of \$1,287,638. Annual Progress Reports were only available for 10 grants since the remaining five grants had not been operational long enough to require an Annual Progress Report. In the Annual Progress Reports, U.S. Veterans Initiative reported that \$1,277,490 in cash match funding

were provided and used for eligible program activities. Even though the signed grant agreements stipulated mandatory cash match requirements (U.S. Veterans Initiative reflected in the Annual Progress Reports), only 5 of 10 grants met their cash match requirements with three grants reflecting no cash match was provided. Therefore, there was a cash matching funds shortfall of \$464,989. The remaining five grants' accounting records (not yet requiring an Annual Progress Report) did not reflect any cash match was provided. Subsequently, the cash matching funds reported in the Annual Progress Reports were not supported as expenditures of a specific Supportive Housing Program project, nor were the cash matching funds recorded in the accounting system for each grant. Consequently, it is questionable whether the cash matching funds of \$1,277,490 for the grants were actually provided. Details of our analyses are shown in Appendix C.

Collectively, based on our reviews of the Annual Progress Reports and the accounting records, we found that for 11 of 15 grants the cash match funding was not supported as expenditures in the accounting records for the individual grants. The remaining four grants commingled funds from various federal agencies and the accounting records did not substantiate what agency paid for the program, who provided the cash match, and/or if expenses paid were required by the Supportive Housing Program grant agreement.

Based on our determinations, we expanded our review and requested that U.S. Veterans Initiative provide cash match documentation supporting the full \$7,222,590 (see Appendix B) in Supportive Housing Program funds expended during our audit review period. During the audit, U.S. Veterans Initiative was unable to provide documentation showing that any of the grant funds expended were supported by the required cash match funding. Instead, U.S. Veterans Initiative provided us with documentation from other federal sources that provided support to their veteran's programs, however, costs paid with these funds were not included in the approved grant budgets or allowed in the associated HUD Supportive Housing Program grants. To qualify for cash match requirements, funding provided must specifically identify the funds that corresponded to each of the Supportive Housing Program grants, as required by HUD regulations

and grant agreements. Therefore, U.S. Veterans Initiative was unable to support cash match requirements for any of the \$7,222,590 for the Supportive Housing Program grant funds expended.

**U.S. Veterans Initiative  
Failed to Ensure It  
Understood and Complied**

We attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on ensuring that it understood and complied with the pertinent cash match funding requirements, as well as its failure to implement an adequate financial management system to record and track the funds. U.S. Veterans Initiative's financial management system was not sufficiently developed and did not identify cash match requirements where we could:

- ✓ Verify cash match in Supportive Housing Program grants' records;
- ✓ Ensure contributions were specific to Supportive Housing Program grants;
- ✓ Determine if cash match was necessary and reasonable for proper and efficient accomplishment of project or program objectives (see Finding 3).

Initially, U.S. Veterans Initiative officials attributed the problem to a deficient financial management system that did not enable them to record and track the cash match funding. Subsequently, U.S. Veterans Initiative officials also informed us that they viewed the cash match as an overall "big picture" that associated support for various U.S. Veterans Initiative programs, and not specifically for a particular grant. During the exit conference, U.S. Veterans Initiative officials stated they did not have any Supportive Housing Program grant cash match requirements prior to 2000, and contended what we were reporting as cash match requirements were actually leveraging requirements. Later, U.S. Veterans Initiative officials acknowledged they did actually have cash match requirements prior to 2000. They stated "that they had met cash match requirements since the cash match provided on Supportive Housing Program grants was for costs that were not allowed on the Supportive Housing Program grant agreements and this is how cash match worked." Also, discussed in Finding 3, U.S. Veterans Initiative officials informed us that they are currently modifying their accounting system to meet federal requirements; however they have stated they do not intend to reflect cash match by each Supportive Housing Program sponsored project (as required) since the program

funds identified for cash match cannot be directly associated with or reflected on Supportive Housing Program financial statements.

### U.S. Veterans Initiative Programs Not Maximized

As a result, the lack of required matching funds prevented U.S. Veterans Initiative from carrying out eligible activities to enable them to fully meet program goals and requirements, and maximize the effectiveness of the programs. We reviewed the most current Annual Progress Reports for the 10 grants that had been operational long enough to require Annual Progress Reports. We found that for the seven grants that reported on program goals and progress, none had fully met the Supportive Housing Programs goals relating to residential stability, increased skills and income, and greater self-determination. For example, for the Hawaii grant, U.S. Veterans Initiative planned to have 100 percent of the program participants complete skills assessments and/or vocational assessments before completing the program, in order to accomplish the goal relating to increased skills or income. The Annual Progress Reports reported, however, that only three percent of the participants actually completed the assessments.

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### Auditee Comments

#### **U.S. Veterans Initiative:**

U.S. Veterans Initiative disagreed with the finding with respect to cash match requirements not met; failure to ensure it understood and complied; and, program not maximized. Details are as follows:

##### **Cash Match Requirements Not Met**

U.S. Veterans Initiative disagreed with OIG's interpretation of cash match requirements, and contended the cash match requirements for all its grants were met and they provided documentation to support their interpretation of cash match.

##### **U.S. Veterans Initiative Failed to Ensure It Understood and Complied**

U.S. Veterans Initiative disagreed with OIG's conclusion that they failed to ensure they understood and complied with pertinent cash match funding requirements, and that

their financial management system was not in compliance with federal requirements.

**U.S. Veterans Initiative Program Not Maximized**

U.S. Veterans Initiative disagreed with OIG's conclusion that their Supportive Housing Program was not maximized, and contended the grants' 31 Annual Progress Reports represented an excellent reflection of their success and achievement of the goals of the Supportive Housing Program. Further, U.S Veterans Initiative stated that OIG's analysis of their program accomplishments was mischaracterized through a deceptive representation of the facts.

**Los Angeles Homeless Services Authority:**

**Cash Match Requirements Not Met**

Los Angeles Homeless Services Authority disagreed with OIG's conclusion that cash match requirements were not met, and contended that they complied with HUD requirements for cash match, which was based on appropriation law requirements beginning in 1999 for all Supportive Housing Program grants. Further, they state that the Technical Submission Budget cash match requirements for the Supportive Housing Program grants should not be considered in determining cash match requirements and they are only required to abide by the appropriation law requirements beginning with 1999 grant awards. Los Angeles Homeless Services Authority said their review of U.S. Veterans Initiatives' Annual Progress Reports and accounting records for their grants showed that U.S. Veterans Initiative met the appropriation law requirements for cash match.

**City of Long Beach:**

**Cash Match Requirements Not Met**

The City of Long Beach disagreed with OIG's conclusion that cash match requirements for grants issued prior to 1999 were not met, and contended that cash match requirements began with the Supportive Housing Program grant awards in 1999, when appropriation law and HUD regulations cited this requirement. Therefore, their 1996 and 1998 grants were not subject to a cash match requirement. The City of Long Beach also stated that the

grant agreements for their two grants, and contracts with U.S. Veterans Initiative did not include any cash match requirements.

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OIG Evaluation of  
Auditee Comments

**U.S. Veterans Initiative:**

**Cash Match Requirements Not Met**

We disagree with U.S. Veterans Initiative's interpretation that the cash match requirement is to satisfy a "big picture" concept of supportive housing services, which in their eyes, only requires the use of the funds to fall under the umbrella of providing supportive services to veterans. In a meeting with OIG, U.S. Veterans Initiative's Executive Director, stated that cash match funds are a means to pay for all the services not included in HUD's Supportive Housing Program grants' budgets, or expenses not allowed to be paid by HUD Supportive Housing Program grant funds.

We interpreted the requirements for cash match as the portion of the total budget included in the Grant Agreement Technical Submission, not paid for out of the HUD Supportive Housing Program funding. Further, the cash match funds are required to be used for the budgeted activities contained in the Technical Submission budget. The HUD Community Planning and Development Offices, contacted during this audit, all verbally agreed with the OIG's interpretation of cash match requirements.

We reviewed the documentation provided by U.S. Veterans Initiative, but it did not sufficiently support the cash match requirements. The documentation for 11 of the 15 grants included general ledger statements of funds from other federal agencies. The documentation for the other four grants included general ledger statements that commingled funds from various federal agencies and the accounting records did not substantiate what agency paid for the program, who provided cash match, and/or if the expenses paid were required by the HUD Supportive Housing Program grants. We found, however, that the documentation was insufficient to support that cash matching funds requirements were met because we could not be assured that the cash match was:

- ✓ Verifiable, since there was no way to associate, or link, these costs to the Supportive Housing Program grants;
- ✓ Not already included as contributions, or cash match, for other Federally assisted projects or programs; and
- ✓ Necessary and reasonable for proper and efficient accomplishment of HUD Supportive Housing Program objectives.

U.S. Veterans Initiative Failed to Ensure It Understood and Complied

We disagree with U.S. Veterans Initiative that its financial management system ensured accurate, current and complete disclosure of the financial results of each federally sponsored program. In fact, U.S. Veterans Initiative stated in July 2004 they implemented a revised financial management system. As discussed in the finding, the system did not

- ✓ Verify cash match in Supportive Housing Program grants' records;
- ✓ Ensure contributions were specific to Supportive Housing Program grants;
- ✓ Determine if cash match was necessary and reasonable for proper and efficient accomplishment of project or program objectives (see Finding 3).

U.S. Veterans Initiative Program Not Maximized

We disagree with U.S. Veterans Initiative's contention that we mischaracterized the achievement of program goals and requirements. We used the Annual Progress Reports for the 15 grants, prepared by U.S. Veterans Initiative, and submitted to HUD, and disclosed the scope and methodology of our analysis in the audit report. We reviewed the most current Annual Progress Reports for the 10 grants that had been operational long enough to require Annual Progress Reports. We found that for the seven grants that reported on program goals and progress, none had fully met the Supportive Housing Programs goals relating to residential stability, increased skills and income, and greater self-determination.

**Los Angeles Homeless Services Authority:**

We disagree with Los Angeles Homeless Services Authority's contention that the Technical Submission of the grant agreement is not a binding contractual requirement for the HUD Supportive Housing Program grants. The grant agreement between Los Angeles Homeless Services Authority and HUD specifically states, "*The term "Application" means the application submissions on the basis of which a grant was approved by HUD, including the certifications and assurances and any information required to meet any of the grant conditions. The Application is incorporated herein as a part of this Agreement...*" Since the Technical Submission is part of the application submission to HUD, in which HUD reviews and approves before executing the grant agreement, it is a binding condition of the grant agreement.

We agree that grants executed prior to 1999 were not subject to appropriation law requirements for cash match. However, when the corresponding grant agreements included cash match requirements, as a condition of the agreement, then the grantee must fulfill these agreed-to requirements. Further, for grant awards after 1999, appropriation law requires a minimum of 20 percent cash match for Supportive Housing Program grants, however, when the grant agreements reflect cash match requirements greater than the minimum requirements, the grantee is required to abide by the higher cash match funding requirements agreed-to in the grant agreement.

We also noted that U.S. Veterans Initiative's comments conflicted with Los Angeles Homeless Services Authority on cash match requirements for grants issued prior to 1999. As discussed above, U.S. Veterans Initiative acknowledged the cash match requirements and provided documentation to support their interpretation of cash match requirements.

**City of Long Beach:**

We disagree with the City of Long Beach's contention that cash match requirements were non-existent prior to 1999. As discussed above in Los Angeles Homeless Services Authority's comments, the cash match requirements were a part of a binding grant agreement with HUD, and

additionally included in their contracts with U.S. Veterans Initiative, Inc.

In addition, we noted that U.S. Veterans Initiative's comments on the cash match requirements conflict with the City of Long Beach. U.S. Veterans Initiative acknowledged these grants have cash match requirements, and provided the documentation to purportedly support the cash match. Further, in an e-mail to OIG, the U.S. Veterans Initiative Executive Director stated that the legal counsel for the City of Long Beach had advised the Manager for the City's Bureau of Human and Social Services that the OIG's interpretation of cash match requirements was correct.

We also disagree with the City of Long Beach that federal regulations for cash match do not apply to their grants because both the superceded, and the current OMB Circular A-110 (Revised 11/19/93 further Amended 8/29/97), and the current version dated 9/30/99, have the same cash match requirements.

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## Recommendations

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

1A. U.S. Veterans Initiative to provide documentation supporting that the required cash matching funds were provided for the \$3,151,576 expended for their grants (see Appendix G), or repay it from non-federal funds.

1B. Los Angeles Homeless Services Authority to provide documentation supporting that the required cash matching funds were provided for the \$2,252,705 expended for their grants (see Appendix G), or repay it from non-federal funds.

1C. City of Long Beach to provide documentation supporting that the required cash matching funds were provided for the \$1,184,961 expended for their grants (see Appendix G), or repay it from non-federal funds.

# U.S. Veterans Initiative Spent At Least \$633,348 in Supportive Housing Program Funds for Ineligible and Unsupported Expenses

U.S. Veterans Initiative spent at least \$633,348 in Supportive Housing Program funds for ineligible (\$498,248) and unsupported (\$135,100) salaries and other expenses. We attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements, including its failure to establish and implement an adequate financial management system to record and track grant expenditures. As a result, these improper expenditures prevented U.S. Veterans Initiative from carrying out other eligible activities to enable them to fully meet program goals and requirements.

Criteria	OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements, Amended September 30, 1999, and 24 CFR 84 generally provide that:
	<ul style="list-style-type: none"><li>✓ The budget plan is a financial expression of the project or program as approved during the award process.</li><li>✓ Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plans, for the following circumstances:<ul style="list-style-type: none"><li>• Change in the scope or objective of the project or program.</li><li>• Change in key personnel specified in the application of award document.</li><li>• The transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa.</li></ul></li><li>✓ The grantee's financial management system must provide: (1) effective control over and accountability for all funds, property and assets (2) adequate safeguards for all such assets and assures that they are</li></ul>

used solely for authorized purposes, and (3) accounting records that are supported by source documentation;

- ✓ The grantee shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion; and
- ✓ Only costs directly related to providing supportive services to the program's recipients are eligible.

In addition, OMB Circular A-122 establishes the criteria for determination of direct and indirect costs for federal awards and once determined these costs must be consistently applied.

### Supportive Housing Program Funds Used for Ineligible and Unsupported Expenses

We reviewed Supportive Housing Program grant expenditures of \$7,222,590 and found that U.S. Veterans Initiative used at least \$633,348 in Supportive Housing Program grant funds for ineligible (\$498,248) and unsupported (\$135,100) salaries and other expenses. The breakdown of the ineligible and unsupported expenses we identified is as follows:

Category	Salary Expenses <sup>1</sup>	Other Expenses <sup>2</sup>	Total
<b>Ineligible</b>			
Non-budgeted items	\$71,034	\$276,403	\$347,437
Indirect costs charged as direct costs	80,353		80,353
Unallowable grant expenses		11,252	11,252
Paid after grants expired		58,085	58,085
Duplicate payments		1,121	1,121
<b>Total Ineligible</b>	<b>\$151,387</b>	<b>\$346,861</b>	<b>\$498,248</b>
<b>Unsupported</b>			
Consulting services <sup>3</sup>		134,560	134,560
Not recorded in accounting system		540	540
<b>Total Unsupported</b>		<b>\$135,100</b>	<b>\$135,100</b>
<b>Total</b>	<b>\$151,387</b>	<b>\$481,961</b>	<b>\$633,348</b>

<sup>1</sup> Salary expenses included salaries, fringe benefits (25.76%), overhead (23.84%) and administrative costs (5.0%).

<sup>2</sup> The scope of our review was the cumulative draws for the 15 active Supportive Housing Program grants, between July 1, 2001 and December 31, 2003.

<sup>3</sup> Total consulting expenses was \$165,000, however \$30,440 related to three grants not included in our audit (see Appendix F).

A breakdown of the ineligible and unsupported expenses, by grant, is shown in Appendices D and E. Details of the deficiencies are discussed separately below.

### Ineligible Salaries and Related Expenses

U.S. Veterans Initiative improperly used \$151,387 in Supportive Housing Program funds for ineligible salaries and related expenses. We reviewed the budget in the technical submission and identified the 24 unauthorized positions. We then reviewed the timesheets and corresponding pay stubs for the 24 employees that incurred salary expenses during calendar year 2003 for the 14 active grants<sup>4</sup> to determine if the duties performed by these 24 employees could be considered eligible as Supportive Housing Program grant expenses. We found that in four of the grants, U.S. Veterans Initiative improperly used Supportive Housing Program funds totaling \$71,034 for salaries relating to positions that were not approved by HUD in the grants' technical submissions. In addition, we found that U.S. Veterans Initiative improperly used \$80,353 in Supportive Housing Program funds for salaries as direct costs, instead of including these expenses as indirect (administrative) costs. Details of the ineligible salaries and related expenses, for each of the four grants is as shown:

Grant Number	No. Of Employees	Salary Amount	Fringe & Overhead	Admin Costs	Total
HI08B001002	8	\$77,522	\$38,451	\$5,799	\$121,772
CA16B100025	1	12,551	6,225	939	19,715
CA16B909003	1	1,662	824	124	2,610
TX01B209025	2	4,641	2,302	347	7,290
<b>Total</b>	<b>12</b>	<b>\$96,376</b>	<b>\$47,802</b>	<b>\$7,209</b>	<b>\$151,387</b>

Changes to key personnel requires HUD's prior approval however, U.S. Veterans Initiative did not obtain the needed approval for the above costs.

### Non-budgeted items

Our review disclosed that \$71,034 of the \$151,387 in salary expenses was ineligible because they were for salaries incurred for positions that were not included in the

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<sup>4</sup> The scope of our review for the salary expenses paid during calendar year 2003 was 14 of the 15 active Supportive Housing Program grants. The remaining grant did not have salary expenses in 2003, thus, was not included in our review of salaries.

corresponding Supportive Housing Program grant budget in the technical submission approved by HUD. Below are the specific positions for the two grants:

Grant/Position	Salary	Fringe	Overhead	Admin	Total
<b>HI08B001002</b>					
V.A. Staff/ Lead Resident Assistant	\$4,846	\$1,248	\$1,155	\$362	\$7,611
Resident Assistant	3,960	1,020	944	296	6,220
AmeriCorps Director	22,053	5,681	5,257	1,650	34,641
Resident Assistant	4,176	1,076	996	312	6,560
Resident Assistant	4,176	1,076	996	312	6,560
Clinical Director	1,370	353	327	102	2,152
<b>Subtotal</b>	<b>\$40,581</b>	<b>\$10,454</b>	<b>\$9,675</b>	<b>\$3,034</b>	<b>\$63,744</b>
<b>TX01B209025</b>					
Outreach Specialist	2,501	644	597	187	3,928
Clinical Director	2,140	551	510	160	3,362
<b>Subtotal</b>	<b>4,641</b>	<b>1,195</b>	<b>1,107</b>	<b>347</b>	<b>7,290</b>
<b>Total</b>	<b>\$45,222</b>	<b>\$11,649</b>	<b>\$10,782</b>	<b>\$3,381</b>	<b>\$71,034</b>

#### **Indirect costs charged as direct costs**

Our review also disclosed that \$80,353 of the \$151,387 in salary expenses was ineligible because U.S. Veterans Initiative charged these expenses as direct costs, instead of including these expenses as indirect costs.

As an illustration, the Hawaii grant incurred most of these expenses (\$58,028 of the \$80,353), because U.S. Veterans Initiative charged the salaries for the two former site directors as direct costs. While the site director is an approved supportive services cost, it was not included in the budget with the technical submission that HUD approved. Therefore, the salary expenses for this position were not eligible as a direct expense to the grant, and instead should have been included as an indirect cost. If the duties performed by the employee were eligible duties, we allowed the costs. For example, if the site director was performing case management work, we considered the costs as eligible. A breakdown of the improper charges for the three grants we identified is as shown:

Grant/ Position	Salary	Fringe	Overhead	Admin	Total
<b>HI08B001002</b>					
Site Director	\$16,636	\$4,285	\$3,966	\$1,244	\$26,131
Site Director	20,306	5,231	4,841	1,519	31,897
<b>Subtotal</b>	<b>\$36,942</b>	<b>\$9,516</b>	<b>\$8,807</b>	<b>\$2,763</b>	<b>\$58,028</b>
<b>CA16B100025</b>					
Receptionist	12,551	3,233	2,992	939	19,715
<b>Subtotal</b>	<b>\$12,551</b>	<b>\$3,233</b>	<b>\$2,992</b>	<b>\$939</b>	<b>\$19,715</b>
<b>CA16B909003</b>					
Site Director	1,662	428	396	124	2,610
<b>Subtotal</b>	<b>\$1,662</b>	<b>\$428</b>	<b>\$396</b>	<b>\$124</b>	<b>\$2,610</b>
<b>Total</b>	<b>\$51,155</b>	<b>\$13,177</b>	<b>\$12,195</b>	<b>\$3,826</b>	<b>\$80,353</b>

### Other Ineligible and Unsupported Expenses

U.S. Veterans Initiative improperly used \$481,961 in grant funds for other ineligible (\$346,861) and unsupported (\$135,100) expenses. The ineligible expenses related to:

- ✓ Non-budgeted items (\$276,403);
- ✓ Unallowable grant expenses (\$11,252);
- ✓ Expenses paid after grants expired (\$58,085); and
- ✓ Duplicate payments (\$1,121).

The unsupported expenses related to \$134,560 in Supportive Housing Program grant expenses for consulting services in conjunction with the Business Services Agreement that was not supported with source documentation (see Finding 3), and \$540 in expenses that were paid with Supportive Housing Program funds, but not recorded in the accounting system. Details are discussed separately below.

#### Non-budgeted items

Our review showed that in 12 of 15 grants reviewed, U.S. Veterans Initiative improperly used \$276,403 in Supportive Housing Program funds for ineligible expenses because they were for items not included in the budgets approved by HUD in the

grants' technical submissions. Specifically, the non-budgeted items included:

✓ Indirect Costs	\$139,795
✓ Equipment, Furniture and Fixtures	51,408
✓ Telephones	41,275
✓ Other Miscellaneous	43,925

Costs incurred for budget line items not approved in the technical submission budget, and the transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa requires HUD's prior approval for these changes. However, U.S. Veterans Initiative did not obtain the needed approval for the above costs.

**Unallowable expenses**

U.S. Veterans Initiative improperly used \$11,252 for unallowable Supportive Housing Program grant expenses for promotional expenses (\$5,776); travel (\$3,914); special events (\$1,150); and training staff (\$412). These expenses were not allowable Supportive Housing Program expenses because they were not directly related to carrying out the Supportive Housing Program grant activities, and also not included in the approved budgets.

**Expenses paid after grant expired**

U.S. Veterans Initiative improperly used \$58,085 in Supportive Housing Program funds after the two grants expired as shown:

Grant	Grant Terminated	Billing Cutoff Date	Billing Submitted	Payment Received
CA16B900005	8/31/2002	11/29/2002	3/29/2003	\$45,513
CA16R151121	4/30/2003	7/29/2003	9/30/2003	12,572
<b>Total</b>				<b>\$58,085</b>

As shown above, U.S. Veterans Initiative submitted billings and was paid on two grants after the payment period for these grants expired.

**Duplicate payments**

U.S. Veterans Initiative used \$1,121 in duplicate payments to the Hawaii grant based on three instances; 1) two invoices were paid twice for the same billing; this occurred because the same invoice was entered into the Accounts Payable system as different invoice numbers; 2) duplicate general journal entries resulted in duplicate charges to the grant; and 3) the responsible program staff approved the same billing twice, once as a prepaid item and then again when the invoice was received.

U.S. Veterans Initiative  
Used Supportive Housing  
Program Funds For  
Unsupported Expenses

U.S. Veterans Initiative improperly used \$135,100 in Supportive Housing Program funds for expenses that were not adequately supported. Specifically, U.S. Veterans Initiative paid \$134,560 in Supportive Housing Program grant expenses for consulting services in conjunction with the Business Services Agreement that was not supported with source documentation (see Finding 3), and \$540 in expenses for three grants that were paid with Supportive Housing Program funds, but not recorded in the accounting records.

**Consulting Services**

As discussed in Finding 3, U.S. Veterans Initiative executed a Business Services Agreement that provided for consulting services by Cantwell–Anderson, Inc.’s President, in which the costs are included with the overhead costs that are charged to the Supportive Housing Program grants. We estimated the active Supportive Housing Program grants paid a total of \$134,560 for consulting services, however, U.S. Veterans Initiative could not provide adequate any documentation supporting the consulting services were actually rendered, if any. Therefore, we were unable to validate the eligibility of these expenses. The allocation of the consulting expenses to each grant is shown in Appendix F. We also identified an additional \$30,440 paid by three Supportive Housing Program grants not included in our audit. Therefore, in total we identified \$165,000 in unsupported consulting services costs (\$134,560 + \$30,440).

**Expenses not recorded in accounting system**

U.S. Veterans Initiative improperly used \$540 in Supportive Housing Program funds from one grant for expenditures that were not recorded in the accounting system because of billing errors.

U.S. Veterans Initiative's  
Lack of Emphasis On  
Requirements

Collectively, we attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements, including its failure to establish and implement an adequate financial management system to record and track grant expenditures, and provide a comparison of outlays with approved budgets (see Finding 3). U.S. Veterans Initiative officials claimed that they were unaware of the requirement to file a budget modification request. However, we noted that U.S. Veterans Initiative had filed several budget modification requests in other situations. Therefore, in our opinion, U.S. Veterans Initiative was aware of the requirement but did not abide by it.

Other Eligible Activities  
Not Carried Out

As a result, these improper expenditures prevented U.S. Veterans Initiative from carrying out other eligible activities to enable them to fully meet program goals and requirements.

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Auditee Comments

**U.S. Veterans Initiative:**

U.S. Veterans Initiative disagreed with the finding and contended that it spent all awarded Supportive Housing Program funds for eligible activities. Details of their comments are as follows:

**Non-budgeted items (Salaries)**

U.S. Veterans Initiative acknowledged that the non-budgeted salaries were not included in the budget because they failed to submit the required budget modifications; however, U.S. Veterans Initiative claimed that the salaries are eligible because the duties performed by these personnel were related to carrying out the Supportive Housing Program.

Indirect costs charged as direct costs

U.S. Veterans Initiative contended that the services provided by these personnel were actually in direct support of the grant programs. U.S. Veterans Initiative also attributed the problem to a misrepresentation on the timesheets of the personnel in question as to their actual duties.

Non-budgeted items (Other Expenses)

U.S. Veterans Initiative stated that OIG inappropriately concluded that these expenses were non-budgeted items, when in fact they were included in the budget under a generalized line item, and thus, should have been eligible.

Unallowable expenses

U.S. Veterans Initiative contended that the expenses that OIG concluded were unallowable, were actually eligible, but were charged to the wrong general ledger expense account. U.S. Veterans Initiative provided documentation supporting these expenses.

Expenses paid after the grant expired

U.S. Veterans Initiative claimed that the expenses should be eligible because they were for eligible program expenses incurred during the grant period.

Consulting Services

U.S. Veterans Initiative contended that the consulting expenses were eligible and provided supporting documentation as an attachment to its written response.

Duplicate payments

U.S. Veterans Initiative agreed that there were duplicate payments and provided documentation showing it took corrective action.

**Los Angeles Homeless Services Authority:**

Los Angeles Homeless Services Authority disagreed with some issues in this finding, but agreed with others. Details of their comments are as follows:

Indirect costs charged as direct costs

Los Angeles Homeless Services Authority disagreed that the salary expenses of \$19,715 charged to grant CA16B100025 were ineligible and attributed the problem to disallowing the expenses based on the staff person's title, instead of the actual job function of that person.

Non-budget items (Other Expenses)

Los Angeles Homeless Services Authority stated that even though charges were for unauthorized budget line items, they should be deemed eligible because they were for eligible supportive service activities. Los Angeles Homeless Services Authority stated that it appeared that OIG applied an extremely narrow definition to their consideration of what was approved under the budget. Los Angeles Homeless Services Authority acknowledged, however that these items need to be further reviewed and justified by the U.S. Veterans Initiative.

Unallowable expenses

Los Angeles Homeless Services Authority stated that U.S. Veterans Initiative has agreed that the \$5,470 charged to the CA16R151121 was ineligible. The \$6 noted as unallowable as "travel" charged to CA16B200052 was incurred for parking of a direct staff position; this could be better classified as "mileage", an allowable item.

Expenses paid after the grant expired

Los Angeles Homeless Services Authority acknowledged the funds were drawn at a late date; however, Los Angeles Homeless Services Authority stated it approved final invoices for the programs based on expenditures incurred during the program period, close-outs and final budget and invoice adjustments notwithstanding. Therefore, the amounts should be considered eligible.

Consulting Services

Los Angeles Homeless Services Authority agreed that better documentation including monthly invoices with tasks and/or hours of work performed, should have been provided by the consultant to support the consulting fees paid to Cantwell Anderson, Inc., on

behalf of U.S. Veterans Initiative. Los Angeles Homeless Services Authority stated that U.S. Veterans Initiative provided documentation attesting to the significant work performed by Mr. Cantwell, which indicated an annual average of 1,660 hours spent on U.S. Veterans Initiative programs.

Expenses not recorded in the accounting system

Los Angeles Homeless Services Authority stated that if the \$540 is for valid and program-eligible items, the expenses can be rectified through an accounting adjustment.

**City of Long Beach:**

The City of Long Beach did not provide any comments on this finding.

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OIG Evaluation of  
Auditee Comments

**U.S. Veterans Initiative:**

Non-budgeted items (Salaries)

We disagree. Since U.S. Veterans Initiative did not submit the required budget modifications for these expenses, HUD has no assurance that the salary expenses for the staff members were for eligible Supportive Housing Program expenses, and would not affect U.S. Veterans Initiative's ability to accomplish its grant program activities. Therefore, we still categorized these as ineligible expenses.

Indirect costs charged as direct costs

We disagree with U.S. Veterans Initiative. We evaluated the Honolulu Site Director's timesheets and found that when she prepared and signed her timesheets, she did not include eligible program activities in the description on how she spent her time. Further, we noted that these timesheets were reviewed and approved by either U.S. Veterans Initiative Executive Director, or were processed without any approval. Therefore, we believe the timesheet was accurately completed when it was first prepared. With regard to the Westside Residence receptionist, we determined the

eligibility of the salary expenses based on the work activities stated in the employee's timesheet, not the job title. Since these timesheets were prepared by the employee, and approved by the employee's supervisor, we believe these were an accurate description of the duties performed.

Non-budgeted items (Other Expenses)

We disagree with U.S. Veterans Initiative that the non-budgeted items were eligible expenses and have the following specific comments:

- ✓ We disagree with U.S. Veterans interpretation that eligibility of grant costs should be approved based on the eligibility that these costs fall under the umbrella of supportive services. Specific budgeted line items are approved in the Technical Submission to meet the technical requirements of each particular Supportive Housing Program grant. When U.S. Veterans Initiative uses approved funding for non-budgeted, and unapproved, items, then this may impact U.S. Veterans Initiative's ability to meet required program requirements. For example, in the case of the U.S. Veterans Initiative's Texas grants, the Community Planning and Development Office in Fort Worth advised us they did not allow overhead costs to be included in their budgets since the U.S. Veterans Initiative could not provide adequate substantiation for these costs. The U.S. Veterans Initiative charged \$72,343 in Texas grants overhead costs even though the Community Planning and Development Office disallowed these costs. U.S. Veterans Initiative used Evaluation and Monitoring and Bus Passes/Tokens budget categories to pay for these overhead costs, which in our opinion, directly impacts the ability to adequately support homeless veterans.
- ✓ We disagree that the expenses were approved under a generalized budget line item. In the case of telephones, these costs are included in the overhead rate charged to Supportive Housing Program grants. Therefore, when telephones are

also charged as a direct cost to the grant, this requires the Technical Submission budget to specifically identify these costs.

Further, charges such as Furniture and Fixtures bought without prior approval from HUD are not eligible expenses against the Equipment and Maintenance budget line item because, in our opinion these are two completely different categories.

We acknowledge that U.S. Veterans Initiative submitted extensive documentation on September 15, 2004 for expense items it believes are eligible. This documentation will be provided to HUD for its review and determination during the audit resolution process.

Unallowable expenses

We acknowledge that U.S. Veterans Initiative submitted documentation on September 15, 2004 for some non-budgeted items they believe are eligible. This documentation will be provided to HUD for its review and determination during the audit resolution process.

Expenses paid after the grant expired

We disagree with U.S. Veterans Initiative. HUD regulations require that all eligible program expenses must be paid within 90 days after the grant termination date, or the date can be extended based on the grantee requesting and getting approval for this extension. Further the Los Angeles Homeless Services Authority's contract with the U.S. Veterans Initiative specifically requires the payment cutoff date or the request for an extension within 60 days after the grant termination date. Since U.S. Veterans Initiative fulfilled neither of these requirements, these expenses are not eligible for reimbursement.

Consulting Services

We disagree that the unsupported consultant costs are eligible for reimbursement. During the audit, U.S. Veterans Initiative could not provide any documentation, such as invoices, supporting the

consulting services. Later, on September 1, 2004, they provided a spreadsheet prepared based on records in the consultant's palm pilot that listed meetings held and number of hours spent in these meetings to substantiate the services provided between January 2001 and December 2003. However, these records did not provide any information detailing the nature of the consulting services provided and how it related to the Supportive Housing Program activities. Therefore, we could not determine the eligibility of the consulting services. We also noted that the Business Services Agreement between U.S. Veterans Initiative and Cantwell-Anderson Inc., expired on June 30, 2000; therefore, all the documentation provided by U.S. Veterans Initiative was for consulting services rendered under an expired agreement, and therefore, should not be eligible program expenses. In addition, we also noted that the purported supporting documentation conflicts with other correspondence between U.S. Veterans Initiative and HUD's Office of General Counsel in April and May 2003, in which the Executive Director specifically attested to the fact that the President of Cantwell-Anderson Inc. was not an employee, agent, or a paid consultant of U.S. Veterans Initiative.

Duplicate payments

We acknowledge U.S. Veterans Initiative provided some additional documentation on September 15, 2004 relating to the duplicate payments. This documentation can be evaluated by HUD during the audit resolution process to determine whether appropriate action has been taken.

**Los Angeles Homeless Services Authority:**

Indirect costs charged as direct

We disagree. The salary expenses of \$19,715 charged to grant CA16B100025 were disallowed based on the employee's timesheets stating she was performing work activities that were not approved in the grant Technical Submission budget.

**Non-budget items (Other Expenses)**

We disagree that the non-budgeted expenses are eligible. Since the required budget modification was not submitted to HUD for review and approval, there is no assurance that these expenses were eligible Supportive Housing Program activities, and approval of these items would not adversely impact meeting the grant program goals. We did however, agree with Los Angeles Homeless Services Authority's issue on the administrative fee, and have revised the report accordingly.

**Unallowable expenses**

Since Los Angeles Homeless Services Authority agreed that the \$5,470 charged to the CA 16R151121 is ineligible, we have no further comment. HUD can determine the eligibility of the remaining \$6 during the audit resolution process.

**Expenses paid after the grant expired**

We disagree with Los Angeles Homeless Services Authority that these are eligible expenses since these were not billed within the required time period.

**Consulting Services**

We disagree that the expenses for consulting services were eligible. The documentation we obtained not only conflicted as to whether consulting services were actually rendered, but was also insufficient to determine the nature of the services rendered in relation to U.S. Veterans Initiative's Supportive Housing Program activities.

**Expenses not recorded in the accounting system**

We disagree that these costs could be easily supported. Based on earlier documentation provided by the U.S. Veterans Initiative, these costs are billing errors. The audit report reflects a change in the cause for these unsupported costs as billing errors.

**City of Long Beach:**

The City of Long Beach provided no comments on this finding; thus, we have no further comments.

## Recommendations

We recommend that the Office of Community Planning and Development:

2A. Instruct U.S. Veterans Initiative, Los Angeles Homeless Services Authority, and City of Long Beach to comply with the pertinent federal requirements in carrying out its Supportive Housing Program grant activities.

2B. Require U.S. Veterans Initiative to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds for the \$347,408 in ineligible expenses (see Appendices D and G).

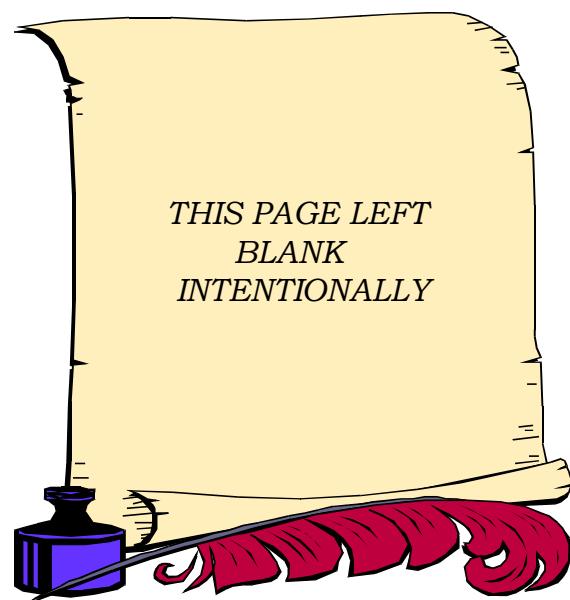
2C. Require Los Angeles Homeless Services Authority to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds for the \$151,290 in ineligible expenses (see Appendices D and G).

2D. Require U.S. Veterans Initiative to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds for the \$66,424 in unsupported expenses, unless it can provide adequate supporting documentation (see Appendices E and G). Additionally, any consulting service charges since December 31, 2003, should be prorated and paid back to each grant.

2E. Require Los Angeles Homeless Services Authority to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds for the \$46,189 in unsupported expenses, unless it can provide adequate supporting documentation (see Appendices E and G). Additionally, any consulting service charges since December 31, 2003, should be prorated and paid back to each grant.

2F. Require City of Long Beach to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds, for the \$22,037 in unsupported expenses, unless it can provide adequate supporting documentation (see Appendices E and G). Additionally, any consulting service charges since December 31, 2003, should additionally be prorated and paid back to each grant.

2G. Require U.S. Veterans Initiative to reimburse the Supportive Housing Program grants, and/or repay HUD from non-federal funds for the \$30,440 in unsupported consulting expenses, unless it can provide adequate supporting documentation (see Appendices F and G).



# U.S. Veterans Initiative Did Not Administer its Supportive Housing Program Grants in Accordance with Program Requirements

U.S. Veterans Initiative did not administer its Supportive Housing Program grants in accordance with Program requirements. More specifically, we found that U.S. Veterans Initiative failed to:

- ✓ Develop an adequate financial management system;
- ✓ Comply with procurement and contract administration requirements;
- ✓ Establish and implement indirect cost rates as required; and
- ✓ Close out expired grants.

We attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements. Collectively, these conditions precluded U.S. Veterans Initiative from conducting its Supportive Housing Program activities more efficiently and effectively, as well as prevented U.S. Veterans Initiative from fully meeting its program goals and requirements. In addition, these deficiencies may have contributed to Supportive Housing Program grant funds being spent for ineligible and unsupported expenses.

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## U.S. Veterans Initiative Failed to Develop an Adequate Financial Management System

Title 24, CFR, § 84.21(b)(1), (2), and (4) of the Code of Federal Regulations (CFR), requires the grant recipient to maintain a financial management system that provides (1) accurate, current, and complete disclosure of the financial results for each federally sponsored project or activity; and (2) records that adequately identify the sources and application of funds for each HUD sponsored activity; and (3) a comparison of outlays with budget amounts.

Contrary to HUD regulations, U.S. Veterans Initiative's financial management system was inadequate because it did not (1) differentiate the source and application of funds for each HUD sponsored activity, (2) identify required cash matching funds, and (3) provide a comparison of outlays with budget amounts for each award. Details of each deficiency are discussed below.

**System did not track source and application of funds**

U.S. Veterans Initiative's financial management system was not sufficiently developed and did not identify the sources and application of funds for each HUD sponsored project. U.S. Veterans Initiative's system tracked funds by U.S. Veterans Initiative program, instead of funding source, therefore any program that had multiple funding sources were co-mingled under one account. Consequently, U.S. Veterans Initiative had to develop a separate spreadsheet system to record the grant draw amounts and expenditures. As a result, expenses incurred for U.S. Veterans Initiative program activities that were funded by multiple sources could be arbitrarily allocated amongst the available funding sources, instead of directly to the appropriate grant.

The problems that HUD's Honolulu Community Planning and Development Office found during its monitoring review of Supportive Housing Program grant HI108B001002 clearly illustrates the problem with U.S. Veterans Initiative's financial management system. U.S. Veterans Initiative's Veterans In Progress program was funded by the Supportive Housing Program grant (starting in August 2002) and Department of Veterans Affairs (VA) grants (starting in October 2003). Since the HUD Supportive Housing Program grant funds were available before the VA grant funds, U.S. Veterans Initiative charged the VA portion of the program costs to the HUD Supportive Housing Program grant. As a result, U.S. Veterans Initiative charged ineligible and unauthorized expenses to the Supportive Housing Program grant. Based on the monitoring review, the Community Planning and Development Office required U.S. Veterans Initiative to reverse and reclassify \$37,251 in ineligible and unauthorized expenses. However, had HUD's Community Planning and Development Office not conducted the monitoring review, these expenses would have inappropriately remained as Supportive Housing Program grant expenses. We also noted that, because of the inadequate accounting system, \$32,936 of the \$37,251 in accounting adjustments made are not properly recorded in the accounting system. The adjustments are only reflected on the separate grant spreadsheet, and as a reduction on the next grant drawdown.

**System did not identify required cash matching funds**

U.S. Veterans Initiative's financial management system was not sufficiently developed and did not:

- ✓ Verify cash matching funds for Supportive Housing Program grants;
- ✓ Ensure contributions were specific to Supportive Housing Program grants; and
- ✓ Support that cash matching funds were necessary and reasonable for proper and efficient accomplishments of project or program objectives.

Consequently, as detailed in Finding 1, U.S. Veterans Initiative was unable to support that it met cash matching funds requirements for any of the \$7,222,590 in Supportive Housing Program grant funds expended during the audit period.

**System did not compare outlays with budgets.**

U.S. Veterans Initiative's financial management system did not provide for a comparison of Supportive Housing Program grant outlays with budgeted amounts. Additionally, the commingling of funds with multi-funded programs precluded this comparison. This inability for budget comparison to outlays resulted in \$287,655 in ineligible expense payments. This included \$276,403 in non-budgeted items and \$11,252 in unauthorized grant expenditures (see Finding 2). If the financial management system had been properly developed, this should have precluded the payments for these unauthorized expenditures.

U.S. Veterans Initiative  
Did Not Modify Financial  
System

U.S. Veterans Initiative officials explained that the problem occurred because the financial management system was developed when U.S. Veterans Initiative was a small organization. U.S. Veterans Initiative did not modify the system as they grew and their funding increased, so that the system would record and track funds by grant instead of by program. In our opinion, U.S. Veterans Initiative officials did not provide sufficient emphasis on its responsibilities to ensure that their system complied with federal requirements. During our audit, in February 2004, U.S. Veterans Initiative advised us they had initiated corrective action to resolve this problem, and planned to implement the new system in July 2004.

HUD Has No Assurance  
That Supportive Housing  
Program Funds Were Spent  
As Approved

As a result of the inadequate system, the financial reports do not reflect the actual grant expenses and do not provide a comparison of expenses with the budgeted amounts. Therefore, HUD has no assurance that the Supportive Housing Program funds are being used only for authorized and allowable expenses. In addition, the inadequate financial management system has increased audit costs because the Independent Public Accountant must prepare additional financial reports in order to prepare the annual audited financial statements.

U.S. Veterans Initiative  
Failed to Comply With  
Procurement and Contract  
Administration  
Requirements

OMB Circular A-110, Uniform Administrative Requirements for Grants and other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Amended September 30, 1999, *Procurement Standards*, and 24 CFR 84, generally require:

- ✓ Competitive procurement for purchases exceeding the threshold fixed at 41 U.S.C. § 403 (11) (currently \$25,000) or \$100,000 whichever is greater requires proper documentation. This supporting documentation includes pre-award review and procurement documents, such as requests for proposals, invitations for bids, independent cost estimates, etc. and procurement records for contractor selection or justification for lack of competition;
- ✓ Ensure that small businesses, minority owned firms, and women's business enterprises are used to the fullest extent practicable.
- ✓ Contract administration to ensure contractor conformance with the terms, conditions, and specifications of the contract; and
- ✓ Contractual provisions that allow for administrative, contractual, or legal remedies for contracts exceeding the \$100,000 threshold. Further, all contracts must include provisions for Equal Employment Opportunity (EEO) as required by Executive Orders 11246 and 11375.

Contrary to the OMB and CFR requirements, U.S. Veterans Initiative failed to comply with procurement requirements. Specifically, U.S. Veterans Initiative did not:

- ✓ Competitively procure the Business Services Agreement between U.S. Veterans Initiative and Cantwell-Anderson, Inc., or justify the lack of competition;
- ✓ Ensure that small businesses, minority owned firms, and women's business enterprises are used to the fullest extent practicable.
- ✓ Ensure contractor performance with the contract terms, conditions, and specifications; and
- ✓ Include contract provisions that allow for administrative, contractual, and legal remedies or EEO requirements for contracts.

Details of the deficiencies are discussed below.

**U.S. Veterans Initiative did not competitively procure the Business Services Agreement**

U.S. Veterans Initiative executed the Business Services Agreement with Cantwell-Anderson, Inc., dated August 3, 1998, which provided for accounting and consulting services, but did not competitively procure the services nor did it justify the lack of competition. The Business Services Agreement showed that annual accounting fees would be the greater of \$114,000 or 4 percent of expenses processed, and consulting fees would be \$75,000. The Business Services Agreement expired on June 30, 2000. We also noted that U.S. Veterans Initiative did not competitively procure the accounting services rendered by the Independent Public Accountant even though these costs exceeded the \$100,000 threshold. Since the Supportive Housing Program grant funds paid a portion of the Independent Public Accountant expenses, these services should have also been competitively procured. However, Cantwell-Anderson, Inc. has continued to provide the services using the expired Business Services Agreement. Between July 1, 1998, and December 31, 2003, U.S. Veterans Initiative paid Cantwell-Anderson, Inc., an estimated \$2,177,894 for services rendered as shown:

<b>Service Provided</b>	<b>Agreement Terms</b>	<b>Total Estimated Payments</b>	<b>HUD Supportive Housing Program Payments</b>	<b>HUD Supportive Housing Program Future Payments</b>
Accounting	4% of expenses	\$1,765,394	\$321,697	\$457,413
Consulting	\$6,250 monthly	412,500	165,000	30,000 per yr
<b>Totals</b>		<b>\$2,177,894</b>	<b>\$486,697</b>	

U.S. Veterans Initiative officials claimed they were knowledgeable of, and adhered to, the procurement requirements for all purchases over \$1,000; however, they were unable to explain why they did not follow them for the Business Services Agreement or for the Independent Public Accountant services. U.S. Veterans Initiative officials did not abide by procurement requirements, possibly to give preferential treatment to Cantwell-Anderson, Inc. in the issuance of this Agreement, since U.S. Veterans Initiative has close ties with its former Acting Executive Director, who is currently the President of Cantwell-Anderson, Inc. With regard to the expiration of the Business Services Agreement, U.S. Veterans Initiative officials initially stated that it had not been extended past the June 30, 2000 termination date. But later, officials stated that it had been extended, but were unable to locate any supporting documentation.

#### **U.S. Veterans Initiative did not ensure contractor performance with the Business Services Agreement**

U.S. Veterans Initiative did not ensure Cantwell-Anderson, Inc. complied with the Business Services Agreement. The Business Services Agreement required that accounting and consulting services be performed in a manner, which will result in services being delivered within approved budgets and in conformance with governmental funding requirements<sup>5</sup>. Specifically, we found that while U.S. Veterans Initiative paid \$6,250 per month to Cantwell-Anderson, Inc. for its president to be on 24-hour call for consulting services, it did not obtain any documentation supporting the actual consulting services rendered, if any. The Business Services Agreement based the monthly fee on the basis that the president would provide 113 consulting hours at a rate of \$55.37 per hour. However, U.S. Veterans

<sup>5</sup> The accounting requirements are established in the Super Notice of Funding Availability by requiring compliance with the federal requirements and regulations Supportive Housing Program grants, which included the OMB Circulars and 24 CFR 84. The budget requirements are established in OMB Circular A-110 and 24 CFR 84 and the grant agreements.

Initiative could not support how many hours of consulting, if any, that the president actually provided. Therefore, we questioned the entire \$134,560 paid by the Supportive Housing Program grants for consulting services as unsupported expenses (see Finding 2).

**U.S. Veterans Initiative did not include required provisions in the Business Services Agreement**

U.S. Veterans Initiative did not include any contractual provisions that allow for administrative, contractual, and legal remedies or EEO requirements for contracts. U.S. Veterans Initiative omitted contractual provisions that provide for administrative, contractual and legal remedies from the Business Services Agreement, which adversely affects the ability of the grantee to effectively resolve these issues on this agreement as well as other contracts where these provisions are omitted. Further, omitting these required provisions could jeopardize current and future grant awards. U.S. Veterans Initiative's controller<sup>6</sup> was recently hired and was unable to provide any reason for the omission of these requirements; however, she advised us that the required contract provisions would be included in all future contracts.

**U.S. Veterans Initiative Failed to Establish and Implement Indirect Cost**

OMB Circular A-122, Cost Principles for Non-Profit Organizations, revised November 1993, Amended September 30, 1999, requires:

- ✓ Organizations with previously established indirect cost rate, submit a new indirect cost proposal to the cognizant agency within six months after the close of the fiscal year.
- ✓ The methods for cost allocation be consistent for indirect costs to be allowable.
- ✓ Indirect costs be accumulated into separate cost groupings, where an organization's indirect costs benefit major functions in varying degrees.

Further, OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements Amended September 30, 1999, *Financial and Program Management*, requires written procedures for determining the

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<sup>6</sup> The controller is actually a contract employee of Cantwell-Anderson, Inc. U.S. Veterans Initiative contracted with Cantwell-Anderson, Inc. for its accounting services in the Business Services Agreement.

reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms of the award.

Contrary to OMB Circular requirements, U.S. Veterans Initiative did not:

- ✓ Update indirect cost rates for the Los Angeles facility;
- ✓ Establish indirect cost rates for facilities outside Los Angeles;
- ✓ Consistently charge general and administrative and overhead costs;
- ✓ Segregate indirect cost pools; and
- ✓ Prepare written procedures for determining the reasonableness, allocability, and allowability of costs.

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. U.S. Veterans Initiative uses indirect cost rates for fringe benefits, overhead and general and administrative costs. The information below provides the details for each of the above conditions:

**U.S. Veterans Initiative did not update indirect cost rates as required**

U.S. Veterans Initiative indirect cost rate proposal was prepared and approved in 1999, and these rates have not been updated since that time. At the time these rates were approved, U.S. Veterans Initiative only had one site in Los Angeles and these rates were exclusive to Los Angeles County and not approved for other locations. These rates have continued to be used for the indirect cost allocations through the time of this audit. During the period from July 7, 1999, through June 30, 2003, grant revenues (involving indirect cost allocations) have increased 227 percent where as, indirect cost rates have increased 406 percent as shown:

Indirect Cost	1999 Cost Proposal	July 1, 2002 – June 30, 2003	Percent Increase
<b>General and Administrative</b>	\$207,114	\$830,233	401%
<b>Overhead</b>	249,937	1,095,395	438%
<b>Fringe Benefits</b>	383,675	1,490,196	388%
<b>Total</b>	<b>\$840,726</b>	<b>\$3,415,824</b>	<b>406%</b>
<b>Grant Revenues</b>	<b>\$4,447,421</b>	<b>\$10,107,667</b>	<b>227%</b>

In July 1999, indirect costs represented about 19 percent of Supportive Housing Program grant expenses; but currently they exceed about 34 percent. Since indirect costs for overhead and fringe benefits are based on direct salary expenses, then this increase is attributed to higher salary expenses, which directly impacts the program. If the indirect costs increase, then there is less available for direct expenses to support the program and ensure goals and requirements are met.

**U.S. Veterans Initiative did not establish rates for facilities outside Los Angeles**

U.S. Veterans Initiative did not establish indirect rates for new facilities, which should have been established and approved by the cognizant agency within six months after the initiation of the grant. U.S. Veterans Initiative currently has facilities in several California counties, as well as Arizona, Hawaii, Nevada, and Texas. Even though indirect cost rates were only approved for the Los Angeles County facility, they were inappropriately being used as indirect cost rates on all U.S. Veterans Initiative facilities. U.S. Veterans Initiative officials stated they were unaware of the requirements to establish or update the rates.

**U.S. Veterans Initiative did not consistently charge General and Administrative and overhead costs**

U.S. Veterans Initiative did not consistently include General and Administrative and overhead in its indirect cost rates. In 2001, U.S. Veterans Initiative adjusted General and Administrative and overhead rates for Arizona and Nevada using the 1999 data by taking out General and Administrative salaries and depreciation costs, but did not obtain approval by the cognizant agency as required. The San Francisco Community Planning and Development Office required U.S. Veterans Initiative to make these adjustments before issuing the Supportive Housing Program grants in Arizona and

Nevada. However, U.S. Veterans Initiative did not make these same changes to other Supportive Housing Program grants. Additionally, U.S. Veterans Initiative officials stated they were unaware of the requirement to obtain approval for revised indirect cost rates.

**U.S. Veterans Initiative did not segregate indirect cost pools**

U.S. Veterans Initiative did not segregate indirect cost pools as required. As discussed above, U.S. Veterans Initiative inappropriately used the indirect cost rates established for the Los Angeles County facility for all its other locations, except for Arizona and Nevada where they arbitrarily adjusted Los Angeles County rates. The indirect cost rates for the Los Angeles County facility were exclusive to that facility since those costs would be different than those in other facilities; therefore, the costs should have been accumulated and allocated as such. U.S. Veterans Initiative's current controller stated she was aware this was required, however, she was unaware why the previous Controller did not adhere to this requirement.

**U.S. Veterans Initiative did not establish written procedures for determining costs**

U.S. Veterans Initiative did not establish written procedures for determining the reasonableness, allocability, and allowability of costs as required. The lack of such procedures created confusion at U.S. Veterans Initiative on how to account for expenditures, such as telephones, office expenses and mileage. Written procedures are needed to provide clear guidance on how to determine whether an expenditure was a direct, or indirect grant expense, and how to properly record it, so that all grant expenditures are consistently accounted for. This lack of guidance has created confusion with grant administrators on what costs are included in indirect and direct costs. If U.S. Veterans Initiative had written procedures, it would have established the proper methodology to account for such expenses.

U.S. Veterans Initiative officials advised us they had initiated corrective action to resolve these problems. They are in the process of developing indirect cost pools and rates for each location in accordance with HUD and OMB requirements and are planning on implementing these new rates by location early in fiscal year 2005.

**Failed to Closeout  
Expired Grants**

Under the provisions of 24 CFR § 84.71, Closeout Procedures:

- ✓ Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. HUD may approve extensions when requested by the recipient.
- ✓ Unless HUD authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in HUD instructions.

Between July 1, 2001, through December 31, 2003, 5 of the 15 Supportive Housing Program grants we reviewed expired. However, U.S. Veterans Initiative did not close out the grants as required. The expired grants included:

<b>Grant Number</b>	<b>Grant Period</b>	<b>Grant Amount</b>	<b>Drawn Down</b>	<b>Balance</b>
CA16B900005	09/01/00 - 08/31/02	\$895,496	\$832,293	<b>\$63,203</b>
CA16R151121	05/01/00 - 04/30/03	1,051,189	997,315	<b>53,874</b>
CA16B960302	05/01/00 - 04/30/03	840,000	840,000	<b>0</b>
AZ01B002030	12/01/01 - 03/31/03	525,000	477,458	<b>47,542</b>
TX01B910018	08/01/00 - 07/31/03	575,902	575,902	<b>0</b>
<b>Total</b>		<b>\$3,887,587</b>	<b>\$3,722,968</b>	<b>\$164,619</b>

As shown above, the total grant funds awarded was \$3,887,587, of which U.S. Veterans Initiative had drawn down \$3,722,968, which left a balance of \$164,619, which should have been de-obligated and made available for other uses. U.S. Veterans Initiative officials stated they were not aware of the requirements to close out the expired grants.

**U.S. Veterans Initiative  
Did Not Place Emphasis  
On Responsibilities And  
Requirements**

Collectively, we attribute the deficiencies to U.S. Veterans Initiative officials' insufficient emphasis on its Supportive Housing Program responsibilities and requirements. U.S. Veterans Initiative officials generally informed us they were unaware of the requirements associated with the deficiencies we identified. However, we noted that U.S. Veterans Initiative claimed extensive knowledge and

experience in administering HUD grants in the grant technical submissions that it submitted to HUD. Therefore, in our opinion, U.S. Veterans Initiative officials either did not ensure they were sufficiently knowledgeable of, or chose to ignore the requirements.

Supportive Housing  
Program Grant Funds  
May Not Have Been Used  
Properly

Collectively, these conditions precluded U.S. Veterans Initiative from conducting its Supportive Housing Program activities more efficiently and effectively, as well as precluded U.S. Veterans Initiative from fully meeting its program goals and requirements. We reviewed the most current Annual Performance Reports for the 10 grants that had been operational long enough to require Annual Performance Reports. We found that for seven grants that reported on program goals and progress, none had fully met the Supportive Housing Program goals relating to residential stability, increased skills and income, and greater self-determination. For example, for the Hawaii grant, U.S. Veterans Initiative planned to have 100 percent of the program participants complete skills assessments and/or vocational assessments before completing the program, in order to accomplish the goal relating to increased skills or income. The Annual Performance Report reported, however, that only three percent of the participants actually completed the assessments. In addition, as discussed in Finding 2, these deficiencies may have contributed to Supportive Housing Program grant funds being spent for ineligible and unsupported expenses.

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Auditee Comments

**U.S. Veterans Initiative:**

U.S. Veterans Initiative failed to develop an adequate financial management system

U.S. Veterans Initiative disagrees and claims they have an adequate financial management system. They contend their system is a combination of the general ledgers from the financial management system used in conjunction with spreadsheets that meets federal requirements for financial management systems.

U.S. Veterans Initiative failed to comply with procurement and contract administration requirements

U.S. Veterans Initiative disagrees and contends that it has two contracts, which they consider as "sole source". They

stated that documentation supporting these services as sole source has been provided to the OIG for both the Business Services Agreement with Cantwell-Anderson, Inc. and the contract with Montgomery & Neimeyer, CPAs, LLC. U.S Veterans Initiative also contends the Board Resolutions renewed the Business Services Agreement and they have provided us this documentation. Further, they stated that the personnel interviewed by the OIG were not appropriate for procurement issues.

U.S. Veterans Initiative failed to establish indirect cost rates as required

U.S. Veterans Initiative disagrees and stated the Indirect Cost Rates approved in 1999 still remain in effect. In addition, the rates approved for the Los Angeles facility have the same requirements as their other California, Nevada, Arizona, Texas and Hawaii grants, and therefore, all indirect charges should use the same cost rates.

U.S. Veterans Initiative also stated OIG misrepresented the facts since we never identified that the Honolulu grant refused to pay any overhead costs. Further, they state they have written procedures for implementing the Indirect Cost Rates and have a simplified version in their documentation.

U.S. Veterans Initiative failed to closeout expired grants

The U.S. Veterans Initiative generally agrees and has now taken appropriate required action to close out the expired grants.

**Los Angeles Homeless Services Authority:**

Los Angeles Homeless Services Authority agreed with the finding and recommendations.

**City of Long Beach:**

The City of Long Beach did not comment on this finding.

OIG Evaluation of  
Auditee Comments

**U.S. Veterans Initiative:**

U.S. Veterans Initiative failed to develop an adequate financial management system

We disagree with the U.S. Veterans Initiative's contention that their financial management system meets federal requirements because of the following reasons:

- ✓ U.S. Veterans Initiative's financial management system cost code structure was developed to track expenses by program instead of by grant. This has resulted in the general ledger cost codes for several grants commingled in one cost code account for all expenses incurred. On four of HUD's Supportive Housing Program grants, U.S. Veterans Initiative commingled several federal agencies' funding and costs into one general ledger cost code. For all the Supportive Housing Program grants, there is no differentiation between the expiring grant and the renewal grant when expenses are incurred.
- ✓ Accounting adjustments are made through withdrawals versus adjustments to the accounting records, which violates the internal control system of an organization and the federal requirements for a financial management system.
- ✓ Federal requirements for financial management systems require that records adequately identify the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest. U.S. Veterans Initiative's financial management system does not meet this requirement.
- ✓ The documentation provided by U.S. Veterans Initiative to meet system requirements for a comparison of outlays to budgets is provided on their net operating statement prepared by Cantwell-Anderson, Inc. on September 14, 2004 for their fiscal year ending June 30, 2003. This document was

provided to the OIG on September 15, 2004. The basic premise for having a financial management system that compares outlays with budget is to ensure only valid expenses are charged and to provide an up to date comparison of what funds have been spent and are currently available against the grant. The U.S. Veterans Initiative's system does not meet these requirements. Further, the comparison of budgets to outlays requires including the total budget, which additionally includes cash match requirements. U.S. Veterans Initiative has stated they are not and will not show cash match requirements on Supportive Housing Program grants accounting records.

In addition, the Community Planning and Development Offices in Honolulu and Los Angeles, as well as the Los Angeles Homeless Services Authority have documented in monitoring reports, and/or in response to this audit report, that the financial management system used by the U.S. Veterans Initiative is inadequate and/or is not in compliance with federal regulations.

We also noted that U.S. Veterans Initiative provided a document on their revised financial management system to the OIG on September 15, 2004. This document has several pages reflecting the fact that they are correcting everything (except cash match requirements) in the revised financial management system that OIG identified as a deficiency.

**U.S. Veterans Initiative failed to comply with procurement and contract administration requirements**

We disagree that U.S. Veterans Initiative provided adequate documentation to support a "sole source" justification for the Business Services Agreement with the Cantwell-Anderson, Inc. and Montgomery & Neimeyer, CPAs, LLC. The "sole source" justification for these contracts was provided to the OIG on August 31, 2004 and the "sole source" justification was dated August 2004. However, during the audit, no documentation was provided to support any attempt for competitive procurement or sole source justification for this contract. Contracts exceeding \$100,000 or more require adequate supporting documentation. This supporting documentation includes pre-award review and procurement documents, such as requests

for proposals, invitations for bids, independent cost estimates, etc. and procurement records for contractor selection or justification for lack of competition. Based on the document provided to the OIG, “sole source” justification requirements were not met because the document was simply a letter explaining what had transpired. Additionally, the OIG disputes “sole source” justification for providing accounting or auditing services since these are common services and do not fall under the purview of what would qualify as sole source procurement.

We disagree that the Board Resolutions extended the Business Services Agreement with Cantwell-Anderson, Inc. U.S. Veterans Initiative provided documentation to the OIG on September 15, 2004; however, the documentation provided by the U.S. Veterans Initiative is the Business Services Agreement with Cloud Break, LLC. Cloud Break, LLC provides leases and building management to the U.S. Veterans Initiative. The Business Service Agreement with Cantwell-Anderson, Inc. grant expired on June 30, 2000, however, payments to Cantwell Anderson, Inc have continued after the expiration date through the period of this audit.

We disagree that appropriate personnel were not interviewed during the audit. During the entrance conference, the Executive Director of U.S. Veterans Initiative designated the Cantwell-Anderson, Inc. Controller as our point of contact for all audit issues. Whenever the Controller was unfamiliar with any issue, she addressed these issues with upper management and Montgomery & Neimeyer, CPAs, and then conveyed their responses on these issues. Further, the other person interviewed on these issues was the Program Director/Officer for U.S. Veterans Initiative.

Consulting services documentation was provided by U.S. Veterans Initiative to OIG on September 15, 2004, for the President of Cantwell-Anderson, Inc.’s calendar, phone bills, expense reports, and daily work activities, which purportedly supports his consulting services rendered. We had requested this documentation several times during the audit and no documentation was provided, until after the draft audit report was transmitted. However, the documentation provided does not show how the

consultant's daily activities relate to the supportive housing program.

U.S. Veterans Initiative failed to establish indirect cost rates as required

We disagree. The U.S. Veterans Initiative indirect cost rate proposal was prepared and approved in 1999, and these rates have not been updated since that time. At the time these rates were approved, U.S. Veterans Initiative only had one site in Los Angeles and these rates were prepared exclusively for Los Angeles County and not approved for other locations. These rates have continued to be used for the indirect cost allocations through the time of this audit and for facilities located in five states. During the audit no documentation was available indicating any communication between U.S. Veterans Initiative and the Corporation of National Service, who approved the 1999 indirect cost rates.

U.S. Veterans Initiative did not establish rates for facilities outside Los Angeles

We disagree, U.S. Veterans Initiative did not establish indirect rates for new facilities, which should have been established and approved by the cognizant agency within six months after the award of the grant. U.S. Veterans Initiative currently has other facilities in California, Arizona, Hawaii, Nevada, and Texas. Even though indirect cost rates were only approved for the Los Angeles County facility, they were inappropriately used as indirect cost rates on all U.S. Veterans Initiative's facilities. The San Francisco Community Planning and Development Office would not approve the awards of the Nevada and Arizona grants without reductions in the overhead and General and Administrative rates. Because no substantiation could be provided to Fort Worth, Community Planning and Development Office, they refused to include overhead costs in their grants' Technical Submission budgets. U.S. Veterans Initiative charged the Texas grants for overhead costs of \$72,343 anyway. The Honolulu Community Planning and Development Office refused to approve overhead costs until U.S. Veterans Initiative could provide substantiation for their overhead cost rate and the Los Angeles Homeless Services Authority is questioning including overhead costs in their renewal grant with the U.S. Veterans Initiative. U.S. Veterans Initiative's (Cantwell-Anderson, Inc.) current Controller stated she was aware these separate cost pools were required, however, she

was unaware why the previous Controller did not adhere to this requirement.

U.S. Veterans Initiative did not establish written procedures for determining costs

We disagree with U.S. Veterans Initiative response, at the time of the audit, U.S. Veterans Initiative could not provide written procedures for determining the reasonableness, allocability, and allowability of costs as required. Documentation provided on September 15, 2004 is supposed to be the simplified version of these written procedures; however, documentation for these procedures was not available during the audit.

OIG disagrees that we misrepresented the facts by not reflecting the non-payment of overhead costs to the Honolulu Supportive Housing Program grant. This information is reflected as footnote number 3 in Appendix D of the audit report.

U.S. Veterans Initiative failed to closeout expired contracts

We generally agree with the response based on the action being initiated by Los Angeles Homeless Services Authority's response and the U.S. Veterans Initiative's request to Phoenix on July 27, 2004, to close out the Arizona grant.

**Los Angeles Homeless Services Authority:**

Since the Los Angeles Homeless Services Authority agreed with the finding and recommendations, we have no further comment.

**City of Long Beach:**

The City of Long Beach provided no comments on the audit finding, thus we have no further comment.

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**Recommendations**

We recommend that the Office of Community Planning and Development:

3A. Suspend Supportive Housing Program grant funding on grants administered by U.S. Veterans Initiative

until U.S. Veterans Initiative develops and implements appropriate management controls to ensure only eligible activities receive funding and required documentation for the expenditures complies with OMB Circular A-122.

3B. Require U.S. Veterans Initiative to revise its financial management system so it meets the requirements of 24 CFR 84.21 and OMB Circular A-110.

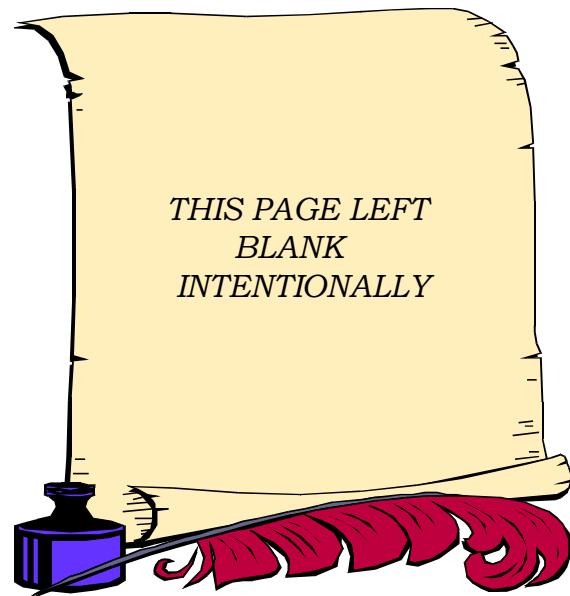
3C. Require U.S. Veterans Initiative to competitively procure the services included in the Business Service Agreement and the Independent Public Accountant contract, in accordance with OMB Circular A-110 and 24 CFR 84.

3D. Require U.S. Veterans Initiative establish and implement written procedures: (a) to ensure that Supportive Housing Program grant expenses are supported with documentation before being paid; (b) to ensure that contracts include provisions for administrative, contractual and legal remedies and EEO requirements; and (c) for determining the reasonableness, allocability, and allowability of indirect costs and to ensure cost allocations are consistently applied.

3E. Require U.S. Veterans Initiative develop, and/or update, and obtain approval on indirect cost rates for each U.S. Veterans Initiative facility as required.

3F. Require Los Angeles Homeless Services Authority to submit financial closeout reports for the expired grants (CA16B900005 and CA16R151121) so that \$117,077 can be de-obligated and put to better use (see Table on Page 43).

3G. U.S. Veterans Initiative submit financial closeout reports for expired grant (AZ01B002030) so that \$47,542 can be de-obligated and put to better use (see Table on Page 43).



# Management Controls

In planning and performing our audit, we considered the management controls of U.S. Veterans Initiative to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of the 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 its business operations. They include the systems for measuring, reporting, and monitoring business performance.

## Relevant Management Controls

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

- ✓ Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably assure accurate, current and complete disclosure of the financial results of each HUD sponsored project; and
- ✓ Compliance with Law and Regulations – Policies and procedures that management has implemented to reasonably assure its administration of Supportive Housing Program grants is carried out in accordance with applicable law and regulations.

The following audit procedures were used to assess the relevant controls identified above:

- ✓ Reviewed grant expenditures for the 15 Supportive Housing Program grants that were active between July 1, 2001, and December 31, 2003; and
- ✓ Reviewed and obtained an understanding of U.S. Veterans Initiatives' policies, procedures, and practices for administering Supportive Housing Program grants;

## 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.

Our review disclosed significant weaknesses in the following areas:

- ✓ Insufficient emphasis on U.S. Veterans Initiative's Supportive Housing Program responsibilities and requirements (Findings 1, 2 and 3).
- ✓ Inadequate financial management system to record and track grant expenditures, matching funds, and comparison of expenditures with budgeted amounts. (Findings 1, 2 and 3).

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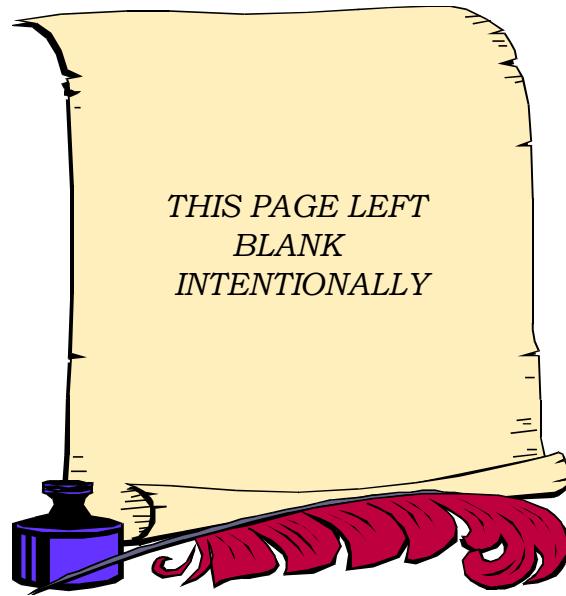
# Follow Up On Prior Audits

This is Office of Inspector General's (OIG) first audit of U.S. Veterans Initiative.

An independent public accountant expressed an unqualified audit opinion on U.S. Veterans Initiative's financial statements for the fiscal year ending June 30, 2003. However, the audit identified:

- ✓ Two reportable conditions relating to the audit of the financial statements, one of which was reported as a material weakness.
- ✓ Two instances of noncompliance that were material to the financial statements of U.S. Veterans Initiative.
- ✓ Two reportable conditions relating to the audit of internal controls over the major federal award programs.

At the time of our audit, U.S. Veterans Initiative informed us that it had initiated the necessary corrective actions to remedy the deficiencies.



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# Schedule of Questionable Costs And Funds Put to Better Use

<b>Recommendation Number</b>	<b>Type of Questioned Cost</b>		<b>Funds Put to Better Use 3/</b>
	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>	
1A		\$3,151,576 <sup>a</sup>	
1B		\$2,252,705 <sup>b</sup>	
1C		\$1,184,961 <sup>c</sup>	
2B	\$347,408 <sup>d</sup>		
2C	\$151,290		
2D		\$66,424	
2E		\$46,189	
2F		\$22,037 <sup>d</sup>	
2G		\$30,440	
3F			\$117,077
3G			\$47,542

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 charged to a HUD-financed or HUD-insured program or activity, and eligibility cannot be determined at the time of the 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 put to better use relates to costs that will not be expended in the future if our recommendations are implemented; for example, costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made and other savings.

<sup>a</sup> Net match funds questioned is \$3,151,576 (total expended \$3,565,408 less ineligible and unsupported in Finding 2 (\$413,832) for active grants.

<sup>b</sup> Net match funds questioned match funds is \$2,252,705 (total expended \$2,450,184 less ineligible and unsupported in Finding 2 (\$197,479) for active grants.

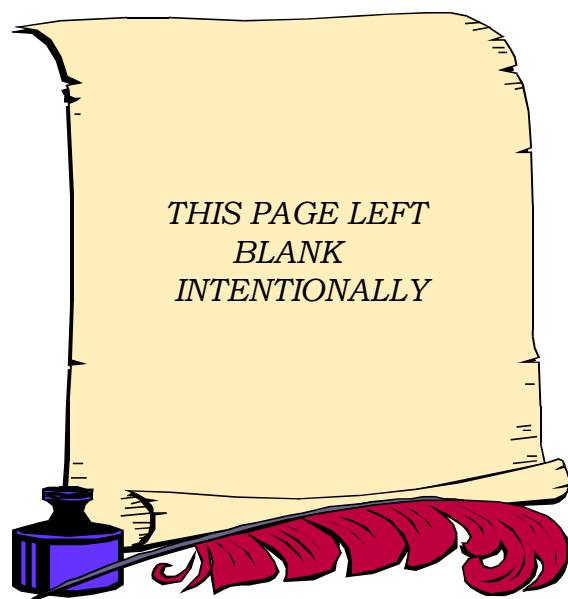
<sup>c</sup> Net match funds questioned is \$1,184,961 (total expended is \$1,206,998 less ineligible and unsupported in Finding 2 (\$22,037) for active grants.

<sup>d</sup> The City of Long Beach was overcharged \$450 for indirect costs. This \$450 was reduced from the \$22,487 of unsupported costs, and this resulted in unsupported costs of \$22,037.



# Schedule of Active Supportive Housing Program Grants

U. S. Veterans Initiative Supportive Housing Grants Active July 1, 2001 - December 31, 2003				
Grant Number	Grant Period	Amount	Payments	Balance
<b>California</b>				
CA16B100025	09/01/02 - 08/31/04	\$948,806	\$468,408	\$480,398
CA16B900005	09/01/00 - 08/31/02	895,496	832,293	63,203
CA16R151121	05/01/00 - 04/30/03	1,051,189	997,315	53,874
CA16B200052	07/02/03 - 07/01/04	350,397	152,168	198,229
Los Angeles Homeless Services Authority Subtotal		3,245,888	2,450,184	795,704
CA16B960302	05/01/00 - 04/30/03	840,000	840,000	0
CA16B806003	09/01/01 - 08/31/04	655,000	366,998	288,002
Long Beach Subtotal		1,495,000	1,206,998	288,002
CA16B100015	06/01/02 - 05/31/04	579,592	494,955	84,637
CA16B909003	07/01/03 - 06/30/06	883,516	15,368	868,148
U. S. Veterans Initiative Subtotal		1,463,108	510,323	952,785
<b>Total California</b>		<b>\$6,203,996</b>	<b>\$4,167,505</b>	<b>\$2,036,491</b>
<b>Hawaii</b>				
HI108B001002	08/01/02 - 07/31/05	1,035,405	369,407	665,998
<b>Total Hawaii</b>		<b>\$1,035,405</b>	<b>\$369,407</b>	<b>\$665,998</b>
<b>Nevada</b>				
NV01B100008	04/01/03 - 03/31/06	399,925	85,511	314,414
NV01B900002	04/01/01 - 03/31/04	1,344,000	1,066,689	277,311
<b>Total Nevada</b>		<b>\$1,743,925</b>	<b>\$1,152,200</b>	<b>\$591,725</b>
<b>Arizona</b>				
AZ01B002030	12/01/01 - 03/31/03	525,000	477,458	47,542
AZ01B202026	04/01/03 - 03/31/04	496,557	380,369	116,188
<b>Total Arizona</b>		<b>\$1,021,557</b>	<b>\$857,827</b>	<b>\$163,730</b>
<b>Texas</b>				
TX01B209025	08/01/03 - 07/31/05	377,473	99,749	277,724
TX01B910018	08/01/00 - 07/31/03	575,902	575,902	-
<b>Total Texas</b>		<b>\$953,375</b>	<b>\$675,651</b>	<b>\$277,724</b>
<b>Totals</b>		<b>\$ 10,958,258</b>	<b>\$ 7,222,590</b>	<b>\$ 3,735,668</b>



Appendix C

# Schedule of Supportive Housing Program Grant Matching Funds Required and Provided

Analysis of Current Year Annual Performance Reports and Financial Statements For U.S. Veterans Initiative Cash Match Requirements through December 31, 2003													
Grant Agreement - Technical Submission Budget Requirements								SHP Funds Expended Compared to Budget Match Requirements					
Grant Number	SHP Supportive Services	SHP Operating Services	SHP Admin Fees	SHP Lease Funds	Total HUD SHP Funding	USVI \$ Match SHP	Total Project Budget	% Match SHP	SHP Funds Expended	USVI APR Cash Match <sup>1</sup>	USVI APR Match % Provided <sup>1</sup>	Match Funds Required <sup>2</sup>	Match \$ Shortfall
A	B	C	D	E	F	G	H	I	J	K	L	M	N
						F+G	G+H			KJ	J'I	MK	
<b>California</b>													
CA16B100025	\$833,466		\$15,452	\$99,888	\$948,806	\$306,510	\$1,255,316	24.42%	\$386,584	\$153,039	39.59%	\$94,392	
CA16B900005	760,186		42,642	92,668	895,496	599,458	1,494,954	40.10%	349,234	130,478	37.36%	140,038	9,560
CA16R151121	1,001,133		50,056		1,051,189	1,104,307	2,155,496	51.23%	389,475		0.00%	199,536	199,536
CA16B200052	333,711		16,686		350,397	84,289	434,686	19.39%	226,486			43,917	
CA16B960302	800,000		40,000		840,000	807,018	1,647,018	49.00%	207,462		0.00%	101,654	101,654
CA16B806003	451,016		31,184	172,800	655,000	925,139	1,580,139	58.55%	119,540		0.00%	69,988	69,988
CA16B100015	551,993		27,599		579,592	1,110,143	1,689,735	65.70%	275,997	676,769	245.21%	181,328	
CA16B909003	631,444		42,072	210,000	883,516	312,173	1,195,689	26.11%	15,368			4,012	
<b>Total California</b>	<b>\$5,362,949</b>	<b>\$0</b>	<b>\$265,691</b>	<b>\$575,356</b>	<b>\$6,203,996</b>	<b>\$5,249,037</b>	<b>\$11,453,033</b>		<b>\$1,970,146</b>	<b>\$960,286</b>		<b>\$834,865</b>	<b>\$380,738</b>
<b>Hawaii</b>													
HI10B8001002	\$986,403		\$49,002		\$1,035,405	\$380,327	1,415,732	26.86%	\$249,666	62,317	24.96%	\$67,071	
<b>Total Hawaii</b>	<b>\$986,403</b>	<b>\$0</b>	<b>\$49,002</b>	<b>\$0</b>	<b>\$1,035,405</b>	<b>\$380,327</b>	<b>\$1,415,732</b>		<b>\$249,666</b>	<b>\$62,317</b>		<b>\$67,071</b>	
<b>Nevada</b>													
NV01B100008 SHP	\$203,170		\$19,044	\$85,680	\$307,894	\$86,813	394,707	21.99%	\$70,142	\$0		15,427	
NV01B100008 OPS	0	92,031			92,031	30,675	122,706	25.00%	15,378			3,844	
NV01B900002	1,163,360		64,000	116,640	1,344,000	1,462,642	2,806,642	52.11%	310,733	77,683	25.00%	161,934	84,251
<b>Total Nevada</b>	<b>\$1,366,530</b>	<b>\$92,031</b>	<b>\$83,044</b>	<b>\$202,320</b>	<b>\$1,743,925</b>	<b>\$1,580,130</b>	<b>\$3,324,055</b>		<b>\$396,253</b>	<b>\$77,683</b>		<b>\$181,206</b>	<b>\$84,251</b>
<b>Arizona</b>													
AZ01B002030	410,000		25,000	90,000	525,000	110,069	635,069	17.33%	369,516	92,379	25.00%	64,044	
AZ01B202026	382,912		23,645	90,000	496,557	96,928	593,485	16.33%	380,369			62,122	
<b>Total Arizona</b>	<b>\$792,912</b>	<b>\$0</b>	<b>\$48,645</b>	<b>\$180,000</b>	<b>\$1,021,557</b>	<b>\$206,997</b>	<b>\$1,228,554</b>		<b>\$749,885</b>	<b>\$92,379</b>		<b>\$126,166</b>	
<b>Texas</b>													
TX01B209025	363,278		14,195		377,473	113,130	490,603	23.06%	99,749			23,001	
TX01B910018	548,902		27,000		575,902	160,003	735,905	21.74%	254,473	84,825	33.33%	55,328	
<b>Total Texas</b>	<b>\$912,180</b>	<b>\$0</b>	<b>\$41,195</b>	<b>\$0</b>	<b>\$953,375</b>	<b>\$273,133</b>	<b>\$1,226,508</b>		<b>\$354,222</b>	<b>\$84,825</b>		<b>\$78,330</b>	
<b>TOTALS</b>	<b>\$9,420,974</b>	<b>\$92,031</b>	<b>\$487,577</b>	<b>\$957,676</b>	<b>\$10,958,258</b>	<b>\$7,689,624</b>	<b>\$18,647,882</b>		<b>\$3,720,172</b>	<b>\$1,277,490</b>		<b>\$1,287,638</b>	<b>\$464,989</b>

<sup>1</sup> Cash match is based on the amounts in the Annual Performance Reports (APRs) and we could not verify this cash match in the financial statements.

<sup>2</sup> Five grants were not operational long enough to require and APR; therefore, Cash Match for these grants is calculated but not required until the APR is issued; therefore these amounts are not included in the cash match shortfall identified in Column N.



Appendix D

# Schedule of Ineligible Expenses

Schedule of Ineligible Grant Expenses as of December 31, 2003																
Expense <sup>1</sup>	Ineligible Grant Expenses							Ineligible Grant Expenses							Ineligible Expense Totals	
	Expired Grants							Current Grants								
	CA16B900005	CA16R151121	CA16B960302	AZ01B002030	TX01B910018	CA16B100025	CA16B200052	CA16B806003	CA16B100015	CA16B909003	H108B001002 <sup>3</sup>	NV01B100008	NV01B900002	AZ01B202026	TX01B209025	
Salary Expenses						\$12,551				\$1,662	\$77,522					\$4,641 \$96,376
Unauthorized Payroll						3,233				428	19,970					1,196 24,826
Fringe Benefits						2,992				396	18,481					1,106 22,976
Overhead						939				124	5,799					347 7,209
Total Salary Expenses						\$19,715				\$2,610	\$121,772					\$7,290 \$151,387
Other Expenses																
Mileage						3,587	995	139	205							532 5,458
Dues & Subscriptions						462		96								558
Bus Pass/Tokens						60		113								173
Furniture and Fixtures						1,800						9,680				11,480
Office Equipment						3,234						36,694				39,928
Uniforms						900		762								1,662
Office Expense									7,862							7,862
Equipment & Maintenance								270								2,490 2,760
Postage						1,559	275									385 2,219
Supplies									10,755							10,755
Fringe Benefits	(3,225)	12,561				1,369	11,131	5,545	12,396	(184)	5,371	3,342	8,794	(125)	(2,028)	54,947
Overhead						(44)	59,766	(2,159)	12,700	(170)		3,022	(3,001)	640	12,577	83,331
Vehicle Expense						160					938					1,098
Utility							3,377									1,303 4,680
Evaluation & Monitoring						1,736			2,017							604 4,357
Administration	(1,740)	465				(23)		(2,888)	9,027	(1,697)	1,070	524				744 5,482
Telephone		20,123						1,849			19,303					41,275
Insurance						52										2,291 2,343
Fringe Benefits Adjustments <sup>2</sup>						(709)	(1,164)	301		304	(3,041)	298	23	(1,208)		(5,198)
Overhead Adjustments <sup>2</sup>						412	253	(338)		(754)	696	333	25	604		1,232
Total Non Budgeted Items	(\$4,965)	\$33,149				\$13,193	\$75,995	\$461	\$39,369	(\$450)	\$14,426	\$938	\$26,375	\$6,936	\$51,563	\$3,795 \$15,618 \$276,403
Unallowable Grant Expenses																
Travel						3,908			6							3,914
Training Staff						412										412
Promotional Expenses						2,246	125									5,776
Special Event						1,150										1,150
Total Unallowable Grant Expenses		\$5,470				\$2,246	\$125		\$6							\$11,252
Paid after 90 Days	\$45,513	\$12,572														\$58,085
Duplicate Payments												\$1,121				\$1,121
Total Other Expenses	\$40,548	\$51,191				\$15,439	\$76,120	\$461	\$39,375	(\$450)	\$14,426	\$938	\$27,496	\$6,936	\$54,968	\$3,795 \$15,618 \$346,861
Total Ineligible Expenses	\$40,548	\$51,191	\$0	\$15,439	\$76,120	\$20,176	\$39,375	(\$450)	\$14,426	\$3,548	\$149,268	\$6,936	\$54,968	\$3,795	\$22,908	\$498,248

<sup>1</sup> The credit amounts reflect the under charging of these expenses, or the actual indirect cost rates were lower than the provisional rates.

<sup>2</sup> Calculation of Indirect Costs were based on the prevailing indirect cost rates. U.S. Veterans Initiative calculated indirect costs by using the provisional rates times direct labor dollars.

At the end of each fiscal year, U.S. Veterans Initiative adjusts indirect costs to actual costs incurred and adjusts the financial records accordingly.

<sup>3</sup> Grant has \$53,645 in Overhead charges accrued but not paid since USVI has not provided adequate documentation to support overhead rate. This accrual is not reflected in this spreadsheet.



# Schedule of Unsupported Expenses

Schedule of Unsupported Grant Expenses as of December 31, 2003																Unsupported Expense Totals		
	Unsupported Grant Expenses								Unsupported Grant Expenses								Unsupported Expense Totals	
	Expired Grants				Current Grants													
Expense	CA16B900005	CA16R151121	CA16B960302	AZ01B002030	TX01B910018	CA16B100025	CA16B200052	CA16B806003	CA16B100015	CA16B909003	HI08B001002	NV01B100008	NV01B900002	AZ01B202026	TX01B209025			
No Supporting Documentation																		
Consulting Services <sup>1</sup>	\$15,506	\$18,581	\$15,650	\$8,895	\$10,729	\$8,727	\$2,835	\$6,837	\$9,221	\$286	\$6,882	\$1,593	\$19,873	\$7,087	\$1,858	\$134,560		
Other Staff Salary Expenses						140											140	
Space						400											400	
Not Recorded in Accounting System						\$540											\$540	
Total Unsupported By Grant	\$15,506	\$18,581	\$15,650	\$8,895	\$10,729	\$9,267	\$2,835	\$6,837	\$9,221	\$286	\$6,882	\$1,593	\$19,873	\$7,087	\$1,858	\$135,100		

<sup>1</sup> U.S. Veterans Initiative paid Cantwell-Anderson, Inc. \$412,500 for consulting services. However, U.S. Veterans Initiative could not provide source documentation for these payments. Consulting fees are included in the Overhead Rate charged based on Direct Labor dollars. We estimated Supportive Housing Program grants pay approximately 40% of the Overhead Costs. By multiplying \$412,500 times 40% equals \$165,000. The allocation of this cost is based on the expenditures paid by each grant. Of the \$165,000, \$134,560 was associated with grants reviewed during the audit period July 1, 2001 through December 31, 2003. The remaining \$30,440 was attributed to three grants not included in this audit period. This allocation of costs to each grant is included in Appendix G.



# Schedule of Consulting Expenses Allocated By Grant

Supportive Housing Program Grants (7/1/98 - 12/31/03)				
Allocation of Unsupported Consulting Fees				
Grant Number	Grant Amount	Grant Payments	Allocation of Consulting Fees 7/1/98 - 6/30/01	Allocation of Consulting Fees 7/1/01 - 12/31/03
<b>California</b>				
CA16B900017	\$579,592	\$579,592	\$10,797	
CA16B960054 <sup>1</sup>	819,487	595,344	11,093	
CA16B908003	749,700	0	-	-
CA16B100025	948,806	468,408		8,727
CA16B900005	895,496	832,293		15,506
CA16R151121	1,051,189	997,315		18,581
CA16B200052	350,397	152,168		2,835
CA16B960302	840,000	840,000		15,650
CA16B806003	655,000	366,998		6,837
CA16B100015	579,592	494,955		9,221
CA16B909003	883,516	15,368		286
<b>Total California</b>	<b>\$8,352,775</b>	<b>\$5,342,441</b>	<b>\$21,890</b>	<b>\$77,643</b>
<b>Hawaii</b>				
HI108B001002	1,035,405	369,407		6,882
<b>Total Hawaii</b>	<b>\$1,035,405</b>	<b>\$369,407</b>		<b>\$6,882</b>
<b>Nevada</b>				
NV01B100008	399,925	85,511		1,593
NV01B900002	1,344,000	1,066,689		19,873
<b>Total Nevada</b>	<b>\$1,743,925</b>	<b>\$1,152,199</b>		<b>\$21,466</b>
<b>Arizona</b>				
AZ01B002001	458,844	458,844	8,550	
AZ01B002030	525,000	477,458		8,895
AZ01B202026	496,557	380,369		7,087
<b>Total Arizona</b>	<b>\$1,480,401</b>	<b>\$1,316,671</b>	<b>8,550</b>	<b>\$15,982</b>
<b>Texas</b>				
TX01B209025	377,473	99,749		1,858
TX01B910018	575,902	575,902		10,729
<b>Total Texas</b>	<b>\$953,375</b>	<b>\$675,651</b>		<b>\$12,587</b>
<b>TOTALS</b>	<b>\$13,565,881</b>	<b>\$8,856,369</b>	<b>\$30,440</b>	<b>\$134,560</b>

<sup>1</sup> Grant reduced \$224,143 to exclude payments in fiscal year 1997 before Business Services

Agreement payments were made. Total payments were \$819,487 - \$224,143 = \$595,344.



# Schedule of Ineligible and Unsupported Expenses By Grant

Summary of Ineligible and Unsupported Expenses - By Grant As of December 31, 2003						
Grant Number	Grant Expended	Total Ineligible	Total Unsupported Active <sup>1</sup>	Total Unsupported Expired	Total Ineligible/ Unsupported	Net Unsupported Cash Match
California						
CA16B100025	\$468,408	\$20,176	\$9,267		\$29,443	\$438,965
CA16B900005	832,293	40,548	15,506		56,054	776,239
CA16R151121	997,315	51,191	18,581		69,772	927,543
CA16B200052	152,168	39,375	2,835		42,210	109,958
LAHSA Subtotal	\$2,450,184	\$151,290	\$46,189		\$197,479	\$2,252,705
CA16B960302	840,000		15,650		15,650	824,350
CA16B806003	366,998	-450	6,837		6,387	360,611
Long Beach Subtotal	\$1,206,998	-\$450	\$22,487		\$22,037	\$1,184,961
CA16B900017				10,797	10,797	
CA16B960054				11,093	11,093	
CA16B100015	494,955	14,426	9,221		23,647	471,308
CA16B909003	15,368	3,548	286		3,834	11,534
HI108B001002	369,407	149,268	6,882		156,150	213,257
NV01B100008	85,511	6,936	1,593		8,529	76,982
NV01B900002	1,066,689	54,968	19,873		74,841	991,848
AZ01B002030	477,458	15,439	8,895		24,334	453,124
AZ01B202026	380,369	3,795	7,087		10,882	369,487
AZ01B209025				8,550	8,550	
TX01B209025	99,749	22,908	1,858		24,766	74,983
TX01B910018	575,902	76,120	10,729		86,849	489,053
USVI Subtotal	\$3,565,408	\$347,408	\$66,424	\$30,440	\$444,272	\$3,151,576
Totals	\$7,222,590	\$498,248	\$135,100	\$30,440	\$663,788	\$6,589,242

<sup>1</sup> Total Unsupported Active includes the fifteen grants that were active during the audit scope period from 7/1/01 through 12/31/03.



# Auditee Comments – U.S. Veterans Initiative



## A PUBLIC-PRIVATE PARTNERSHIP FOR HOMELESS VETERANS

*United States Veterans Initiative, Inc.*  
**HONORARY BOARD OF DIRECTORS**  
President Jimmy Carter  
President Gerald Ford  
Sidney Poitier  
Oliver Stone  
Dennis Franz

**IN MEMORIAM**  
Gregory Peck  
Jimmy Stewart  
Martha Raye  
Jack Lemmon

**NATIONAL ADVISORY BOARD**  
Heather French Henry  
Gus Hahn  
Tony Orlando

September 15, 2004

Ms. Joan Hobbs, Regional Inspector General for Audit  
U.S. Department of Housing & Urban Development  
611 W. 6<sup>th</sup> Street, #1160  
Los Angeles, California 90017

Dear Ms. Hobbs:

This letter covers the Response of United States Veterans Initiative to the Draft Final Audit Report issued by your office on September 1, 2004. You are now in receipt of a written narrative response to each of your findings, along with 26 Attachments, 3 Binders, and one Box of supporting documentation. You have also received both via email and disc, all information we could deliver electronically. Please let me know if you have any further questions. I can be reached at (310)348-7600 ext. 3104.

Sincerely,

Stephani Hardy  
Executive Director  
United States Veterans Initiative

A public-private venture for homeless veterans between  
United States Veterans Initiative, a 501(c)(3) non-profit &  
Cloudbreak Development LLC, a special needs housing corporation

733 S. Hindry Ave.  
Inglewood, California 90301  
(310)348-7600  
[www.usvetsinc.org](http://www.usvetsinc.org)



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

### **Executive Summary**

United States Veterans Initiative has spent a significant amount of time over the past 6 weeks providing the HUD IG representatives with documentation to support our activities and expenditures and to eliminate most of the findings in this report. We look forward to working with HUD directly to solve all of these issues and get back to the business of serving homeless veterans.

#### **U.S. Veterans Initiative DID MEET Supportive Housing Program Grant Matching Funds.**

U.S. Veterans Initiative is able to demonstrate that cash match was met for ALL of the SHP grant funds expended during the audit report. This documentation has been provided to the HUD IG.

The financial system that was used during the period of time being audited was cumbersome but was not inadequate according to federal regulations. It is the opinion of the HUD IG Field Representative that our financial systems are not what he would prefer. However, he has not demonstrated that they do not comply with federal regulations.

Program goals and requirements to support and house homeless veterans were met in most instances. The methodology used by the HUD IG field representative to determine whether or not we had met program goals that was designed to demonstrate failure rather than to present an accurate picture of a program. Using his methodology, if 9 goals were present in a grant and 8 goals were met or exceeded but one goal was not met, even if by 2 or 3 percentage points, then the conclusion was we did not fully meet our goals for that grant year. That would be an accurate statement but is a completely inaccurate picture of what actually occurred. As you will see, U.S. Veterans Initiative actually met or exceeded the majority of program goals.

#### **U.S. Veterans Initiative only spent SHP funds on eligible supportive housing activities and supportive services for homeless veterans.**

Attached you will find a breakdown of the funds deemed ineligible by the HUD IG field representative. We have sorted them by Grant numbers and have noted our justification for these costs. Attached you will also find the back up documentation supporting these costs. In addition, training sessions have been held and written clarification has been placed into USVI operating procedures for each of the issues identified during the HUD IG audit process.



September 15, 2004

DRAFT Audit Response

Case # 2004 - LA - xxx

U.S. Veterans Initiative's financial management systems have been adequate to track grant expenditures as required by OMB and 24CFR84 regulations as demonstrated to the HUD IG representatives.

It is difficult to respond to the accusation that these "improper expenditures prevented us from carrying out eligible activities or fully meeting program goals" since our APR's indicate that program activities and goals were met or exceeded in a majority of our activities!

**U.S. Veterans Initiative has many areas for improvement. We have worked during this audit process to correct each and every system that the IG representative has identified as being a compliance issue.**

- Our financial management systems may be cumbersome, but they are not inadequate.
- We have supplied the IG representatives with documentation demonstrating the Sole Source Nature of our Business Services Agreement, as well as attempts to procure the accounting services portion of the agreement with no success. Systems to ensure contract and procurement compliance have been implemented.
- Our Indirect Cost Rate was established and implemented by the Corporation for National Service, our cognizant agency, as a result of their IG audit of our program and remains in effect today. We are currently in the process of testing our assumptions on a new cost rate that we have created and will be submitting to the U.S. Department of Veterans Affairs (our new cognizant agency) for approval. It is our understanding that we cannot implement a new indirect cost rate until this rate has been approved by the new cognizant agency.
- U.S. Veterans Initiative has provided all necessary information for closing out of questioned grants. We have confirmed this

## Appendix H



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

with each of our HUD funding representatives.

### Recommendations:

1. U.S. Veterans Initiative has provided supporting documentation for the required cash match for the SHP funds expended.
2. U.S. Veterans Initiative is committed to complying with all federal requirements as it relates to HUD SHP and any other federal agencies. We are anxious to resolve any areas in which we are not in compliance, as is demonstrated by the changes that have already been implemented.
3. U.S. Veterans Initiative can provide supporting documentation for nearly all of what are deemed ineligible and unsupported expenses and can demonstrate that all funds were eligible expenses and spent appropriately in the support of homeless veterans in the programs in question. We are anxious to work with HUD to come to an agreement on what funds, if any, need to be reimbursed.
4. U.S. Veterans Initiative has already implemented a revised financial management system.
5. Attempts have previously been made to competitively procure some services in the business agreement, with no success. In addition, some services remain sole source as the relationship and the service provider existed prior to HUD funding.
6. Our current indirect cost rate is still in effect according to the Corporation for National Service, our cognizant agency. It is our understanding that if we were to implement the new indirect cost rate without approval from the Department of Veterans Affairs, we would be out of compliance.
7. We have provided each of the HUD funders all the information they currently need to close out the grants in question. We are in contact with them and will provide any additional information necessary.



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 1

**WE DISAGREE**

**U. S. Veterans Initiative DID Meet Matching Funds Requirements  
for ALL SHP Funds Expended**

Cash Match Requirements: U.S. Veterans Initiative met all cash match requirements for all HUD SHP grants during the period in question. Please see **Attachment A** for a summary chart of each grant awarded to U.S. Veterans Initiative through HUD. Back up documentation has been supplied to the HUD IG representative but was apparently not taken into consideration. **Attachment B** contains a file of each grant with back up documentation. This was supplied to the HUD IG's office prior to the writing of the Final Draft Report, has been sent to each of our Site Directors to deliver to each of their HUD monitors, and will be sent to the U.S. HUD office upon completion of the final report.

The Draft Final Report in no way demonstrates that U.S. Veterans Initiative did not comply with 24 CFR 84. Financial Systems used by USVI during the audit period in question may have been cumbersome, but they have been and continue to be adequate to demonstrate accurate and appropriate accounting of all funds received and expenditures made. Source documentation as allowed by 24 CFR 84.21(7) is used to support cash match requirements and has been given to the IG representative.

Cost Sharing or Matching is:

- Verifiable from U.S. Veterans Initiative's records
- Not included as contribution for another federally assisted project
- Necessary and reasonable for efficient accomplishment of program objectives

U.S. Veterans Initiative has a financial management system that ensures accurate, current, and complete disclosure of the financial result of each federally sponsored program.

Please see:

- **Attachment C:** 2002-2003 Audited Financial Statements, pp. 19 & 20



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 1

- **Attachment D:** Response to Audit Report's findings regarding U.S. Veterans Initiative's Financial Systems
- **Attachment E:** Letter from Independent Public Accounting Firm regarding USVI's financial systems and cash match for HUD SHP programs.

Cash Match Requirements WERE MET.

U.S. Veterans Initiative met cash match for each year in question and this documentation has been provided to the HUD IG representative. Please see **Attachment A** for a chart summarizing each grant's expenditures and cash match allocation. All source documentation will be delivered to the HUD DC office upon receipt of the final report. (**Attachment B**)

U.S. Veterans Initiative Staff & officials spend a great deal of time working to comply not only with federal regulations, but with the different interpretations and implementations of those regulations by each HUD CPD office or pass-through agency. As the program has continued to grow, we have recognized areas for improvement and have revised our financial management systems, provided additional training to personnel, and implemented new written procedures specific to HUD SHP guidelines & local HUD officials. We expect this will always be a work in progress and anticipate continuous improvements to be implemented.

During our initial Draft Response to the HUD IG representative's Draft Audit Report, we spent significant time and energy explaining and defending these countless conversations that are cited throughout the audit report. We can certainly continue to disagree about whether or not two individuals in the Accounting Department constitute "U.S. Veterans Initiative Officials", or whether their comments were definitive or taken out of context. We choose to save that for another time.

U.S. Veterans Initiative has met its cash match for each year that it has had HUD SHP funding, has provided that documentation to the HUD IG representative, and has never had a HUD CPD rep question whether or not it was provided.



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

U.S. Veterans Initiative  
Programs Perform  
Exceedingly Well!

Finding 1

The conclusion that is drawn at the end of each of the three findings, is that U.S. Veterans Initiative was unable to fully meet program goals and requirements and maximize the effectiveness of programs. The HUD IG representative did an artful job of creating a methodology that would demonstrate just that. For example, there were eight (8) program years where all goals were met or exceeded but one. The conclusion the IG representative came to is that the goals were not fully met and therefore the program effectiveness was not maximized.

Please refer to **Attachment F**, which charts each APR for each program year of each grant funded through HUD. Copies of these APR's have been provided to the HUD IG representative and will be delivered to HUD's office when the final report is issued.

- 31 APR's have been filed
- 2 programs (6%) exceeded 100% of their goals
- 7 programs (23%) met or exceeded 100% of their goals
- 8 programs (26%) met or exceeded all but one of their goals (90% - 99% of goals met)
- 8 programs (26%) met or exceeded all but 2 or 3 of their goals.
- 5 programs (16%) were deficient in meeting 4 of their goals. And 3 programs (10%) were deficient in meeting more than 4 goals. However, all met or exceeded some of their goals. These were primarily the start up years of programs and the issues have been corrected as is reflected by subsequent APR's or current grant reviews.

One of these was indeed the Hawaii program, which is held up as an example throughout the draft final report. It is interesting to note that the HUD IG representative uses the same example from our Hawaii program twice in this report. A goal was originally set for that program at 100% client participation, but only 3% of the clients met the goal. Not only are both the Honolulu CPD Officials and the

## Appendix H



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 1

HUD IG representatives well aware of the circumstances surrounding this example, they are also aware that the problem has been corrected. (please see Binder Labeled Hawaii Correspondence!) The third quarter APR for the HI08B00-1002 grant in question is dated March 31, 2004. (**Attachment G**) Eight objectives were set for this program. Of those eight objectives, four (50%) exceeded expectations. Three of those objectives were completely met (40%). One objective (10%) is reaching 68% of a 75% service delivery goal. The Site Director is going to be asking the HUD CPD representative for a revision of this objective in their final APR to reflect the high barriers of the chronically homeless veterans being served by the Hawaii site.

**Currently 90% of the Hawaii Objectives are being met or exceeded.** U.S. Veterans Initiative believes this is an excellent outcome and would be exactly the kind of adjustment that HUD would expect from a strong program that takes its responsibilities very seriously!

As a counter balance to this example, U.S. Veterans Initiative programs exceeded 20 goals by more than 25% of the anticipated level of service. Programs met seven goals by more than 50% of the anticipated level of service. And just as one goal was 97% deficient in being met, one goal was 90% above the service level we anticipated being able to meet.

These goals represent **18,432 homeless veterans** receiving referrals, coming off the streets, remaining clean and sober, and obtaining employment. An argument can more easily be built that because we **did have** the cash match we were able to meet and exceed a large percentage of the service goals we set for ourselves in our grant applications.

As an additional point of reference we are including **Attachment H**, page 2 of HUD's SHP Desk Guide. "*HUD recognizes that the nature of the program and the subpopulations grantees work with may result in limited goal attainment. Therefore, we will not necessarily consider low levels of achievement as indications of poor performance. Rather we are looking for strategies to*



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 1

*effectively meet the program goals, along with efforts at continuously improving performance."*

Recommendations:

- 1A. U.S. Veterans Initiative has provided documentation supporting that the required cash matching funds were provided for the funding expended from our grants. (**Attachments A & B**)
- 1B. U.S. Veterans Initiative has provided documentation to Los Angeles Homeless Services Authority (LAHSA) supporting that the required cash matching funds were provided for the funds expended for their grants.
- 1C. U.S. Veterans Initiative has provided documentation to the City of Long Beach supporting that the required cash matching funds were provided for the funds expended for their grants in accordance with the APR's, since there was no cash match required during those years per the regulations, our contract with the City of Long Beach, and discussions with the City of Long Beach (please see their response to this report).



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 2

**WE DISAGREE**

**U.S. Veterans Initiative spent all awarded SHP funds on  
ELIGIBLE ACTIVITIES –**

**Services for Homeless Veterans in the locations and programs  
for which they were intended**

In the Draft Final Audit Report, \$633,348 of SHP funding was identified by the IG representative as ineligible or unsupported (11.4% of USVI's HUD SHP expenditure during the years in question and 2.7% of USVI's budget during those same years).

Please see **Attachment I** for a schedule of questioned costs.

Of the amount in question, \$335,408.65 (53%) was due to adjustments to the program that were required in the field but were not properly conveyed to the accounting department, and therefore requests were not made to have the grant budgets adjusted prior to the expenditure. However, ALL these expenditures were within the single activity of supplying supportive services to homeless veterans, are eligible expenses, and unquestionably were in the best interest of advancing homeless veterans to stability. All Site Directors have made attempts to deliver this information to their local HUD monitors with requests for revisions and approval.

An additional \$153,390.97 (24%) was either mis-characterized in the documentation submitted, or was mis-characterized by the IG in the field, but all costs were eligible supportive services.

\$58,085 (9%) was paid to the program after the grant period had expired, although the expenses eligible supportive service expenses and were incurred during the grant program year.

\$9,100 (1%) reflects the adjustment of the Indirect Cost Rate at the end of the year from Provisional to Actual, as required by regulations. (**Attachment J**, OMB Circular A-122 1.e.) Additionally, 84CFR25 states that a budget modification may need to be submitted "if" approval is required by HUD. We were not made aware by any of our local HUD offices that this would be required. We have requested that each of these modifications be made. (please see response to Final Draft Audit Report from the City of Long Beach, for example).



Finding 2

September 15, 2004

DRAFT Audit Response

Case # 2004 - LA - xxx

\$65,832.56 (10%) was due to mistakes made in the billing process that have already been paid back through future draws from that HUD program. Additional controls have been implemented to ensure this does not happen in the future.

\$11,530.82 (2%) was mistakenly charged to a HUD SHP grant when the cost was not an eligible supportive service and remains unresolved. Additional controls have been implemented to ensure this does not happen in the future.

Additional documentation for the \$135,100 (21%) of unsupported expenses has been provided to the IG representative and is provided as an attachment to this report. Additional controls have been implemented to ensure this does not occur again.

Again, we disagree with the OIG field representative's repeated conclusion that our financial systems were inadequate (please see Finding 1 & **Attachments C, D, & E**), as well as the accusation that we did not meet program goals and requirements (please see **Attachments F, G, & H**).

**Ineligible Expenses:**

**Non-budgeted Salaries:**

In two HUD SHP grants the Site Director failed to request a budget revision to reflect changes that were necessary once the programs actually began operating.

In the case of Hawaii, Resident Assistants were charged to the grant and although their activities were certainly eligible expenses and their titles & job descriptions were actually included in the final technical submission. However, they are not listed in the budget of the technical submission (an obvious error since their job descriptions were included!) Additionally, the AmeriCorps Director in Hawaii divided her time between those activities and direct service activities eligible under the HUD grant. The Clinical Director also provided case management services to homeless veterans. Their job descriptions and titles should have been altered to read AmeriCorps Director/Veterans Services Coordinator and Clinical Case Manager.



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 2

Similarly in Houston, the Outreach Specialist and the Clinical Director are not job descriptions or titles that are included in the final technical submission of this grant, but their activities were certainly eligible as reflected by their time sheets. The Houston Site Director is working with his HUD monitor to ensure that the necessary changes and adjustments are made.

**Indirect Salary Costs:**

The Site Director charges to the Hawaii grant that are being disallowed by the IG representative are simply a misrepresentation in their time sheets of how they allocated their time. It should be clear to anyone reviewing this program by now that the Site Director spent no time administering the grant which is why the program struggled with compliance issues!

In meeting with the HUD IG representative it took us all quite a while to determine where he got the idea that the Veterans Activities Coordinator for the Westside Residence Hall was a receptionist. After much digging through supplemental documentation, he revealed that on our Westside phone directory she has characterized herself as "Reception/Activities". This is because Felicia thinks of herself as the first person to receive the veterans when they enter the Westside Residence Hall. She reports to the Director of Outreach and is the liaison between the veterans and staff and often the outside world. Please see **Attachment K**.

The portion of Steve Peck's salary listed for the Long Beach grant, again, is a mischaracterization of his activities on his time sheet. The Los Angeles and Long Beach Site Directors are working with their HUD monitors to amend these issues.

**Non budgeted items:**

Many expenses that are characterized by the IG representative as being non-budgeted were actually in the budget under a generalized line item, often described in the budget or grant narrative (including



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 2

the telephones and the equipment and furnishings that are delineated on page 16). Some non-budgeted items were due to adjustments that had to be made once the program began. These were always eligible expenses and Site Directors are working with their HUD monitors to resolve these issues.

**Unallowable Expenses:**

The \$5,776 listed as promotional expenses were actually the cost of duplicating outreach materials distributed in the field to homeless veterans. Back up documentation has been provided to the HUD monitors at these two sites so this issue can be resolved.

The \$3,914 listed as travel was actually mileage charged to the Houston grant and was simply miscoded. This backup documentation was provided to the IG representative and the Site Director is working with his HUD monitor to clear up this issue.

The \$412 for staff training was incorrectly charged to the HUD SHP grant.

**Expenses Paid After the Grant Expired:**

Two payments were requested and received after expiration of the grants for eligible program expenses incurred during the grant period.

**Duplicate Payments:**

The IG representative has documentation verifying that this duplicate payment was repaid through future HUD draws. Systems have been implemented to ensure this does not happen again.

**Unsupported Expenses:**

**Consulting Services:**

Documentation has been provided to the HUD IG representative for all consulting expenses. Please see **Attachment L**.

**U.S. Veterans Initiative's Emphasis on HUD Requirements:**



Finding 2

September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

U.S. Veterans Initiative “Officials” provide regular “in house” training to staff in addition to the initial training they receive when they are hired. We also have an Operations Manual for all programs, which is updated at least annually and is supplemented with all training materials provided by HUD and other federal agencies. When HUD training opportunities are available for staff in a location where we operate HUD programs, USVI staff is in attendance. This is provided NOT AT THE EXPENSE OF HUD, who will not pay for the training of staff.

It may be accurate to state that we have had instances of staff being ill-suited to the management tasks or ill-equipped to take on the responsibilities associated with administering a federal grant. The most glaring example was the original Hawaii Site Director, referred to several times throughout the Draft Report. This individual was instructed upon multiple occasions (including in the HUD Field Office in the presence of those HUD Representatives) to provide a variety of documents to the HUD Field Office including requests for grant narrative revisions, budget revisions, and goals and objectives revisions since the grant had been written several years prior to implementation and much had changed in the subsequent years. Because she spent too much of her time “case managing clients” (an eligible SHP expense), and very little time “administering the grant” the OIG might choose to come to the conclusion, as U.S. Veterans Initiative Officials did, that this particular Site Director “placed insufficient emphasis on SHP responsibilities & requirements”. This employee is no longer with this organization.

It is also accurate to state that there are instances where Site Directors have requested budget or other grant revisions. Directors who were not aware of this requirement or did not fully understand their responsibility in carrying out this requirement have now received training and written instructions regarding this process. They have also attempted to contact their respective HUD monitors to clear up any issues that might exist in previous or current HUD SHP contracts.

Again, the HUD IG representative concludes that our financial management systems are inadequate and that as a result we were prevented from carrying out our eligible activities or fully meeting program goals and requirements. This assumes that the budget modifications would have been denied AND our alternate allocation of the resources would have improved our already strong outcomes. Again, please refer to the discussion in Finding 1 and to **Attachments C, D, & E**.



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

**Recommendations:**

- A. It is not necessary to instruct us to comply with pertinent federal requirements. We do our very best to ensure that our organization and all our sites are in compliance. We completely agree that we have, and may continue to have deficiencies and apologize for that. When deficiencies are pointed out to us in audits or field visits they are corrected. Please see **Attachment M**, which is a grant review of all current HUD programs.
- B. U.S. Veterans Initiative requests that HUD consider the supporting documentation provided for "ineligible expenses".
- C. U.S. Veterans Initiative & Los Angeles Homeless Services Authority request that HUD consider the supporting documentation provided for "ineligible expenses".
- D. U.S. Veterans Initiative requests that HUD consider the supporting documentation provided for "unsupported expenses" (including all consulting service charges). Please see **Attachment L**.
- E. U.S. Veterans Initiative & Los Angeles Homeless Services Authority request that HUD consider the supporting documentation provided for the "unsupported expenses" (including all consulting service charges). Please see **Attachment L**.
- F. U.S. Veterans Initiative & the City of Long Beach request that HUD consider the supporting documentation provided for the "unsupported expenses" (including all consulting service charges). Please see **Attachment L**.
- G. U.S. Veterans Initiative & Los Angeles Homeless Services Authority request that HUD consider the supporting documentation provided for the "unsupported consulting expenses". Please see **Attachment L**.
- H. U.S. Veterans Initiative requests that HUD consider the supporting documentation provided for the "unsupported consulting expenses". Please see **Attachment L**.

Finding 2



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

**WE DISAGREE**

**U.S. Veterans Initiative DID Administer**

**Supportive Housing Program Grants**

**in Accordance With Program Requirements**

With 16 HUD grants operating in 9 locations around the country, 10 continuums of care, 4 pass through grantors, and 6 HUD CPD offices, we are certain that we have made errors and will continue to do our best to correct those immediately. In the four areas specifically targeted in the Draft Report:

- Adequate Financial Management Systems – It is clear that the HUD IG representative does not prefer our financial management systems. However, we still do not believe he has proven that our financial management systems are inadequate according to regulations. (please see Finding 1 & **Attachments C, D, & E**) In addition, revisions have been made to our financial systems as described in **Attachment N**.
- Compliance with Procurement & Contract Administration Requirements – supporting documentation is provided to support the sole source nature of the contract in question (please see **Attachments O & P**). In addition, the two pieces of information that were missing from the previous agreement have been added to the current agreement. (please see **Attachment Q**).
- Indirect Cost Rate – U.S. Veterans Initiative implemented the rate we were given by the Corporation for National Service to the best of our ability. We have created a revised indirect cost rate schedule that is currently being tested against actuals for the first three months of this fiscal year. When this testing is complete, we will request acceptance of this new Provisional Indirect Cost Rate from the U.S. Department of Veterans Affairs, our new Cognizant Agency. It is our understanding that until they have gone through their process and officially accepted this new cost rate, that we would be out of compliance to do anything other than exactly what we are doing right now, which is using the cost rate that is currently approved.
- Close Out Expired Grants – U.S. Veterans Initiative has provided all information regarding close outs that it has been asked to provide to all HUD funders.



September 15, 2004

DRAFT Audit Response

Case # 2004 - LA - xxx

Finding 3

Again the Draft Final Report draws the conclusion that these conditions precluded U.S. Veterans Initiative from conducting its SHP activities more efficiently and effectively and from fully meeting its program goals and requirements. "Efficiency" seems to be a subjective opinion and one that is not substantiated by this report. U.S. Veterans Initiative generally measures effectiveness by number of homeless veterans served and what happened to those individuals as a result of their participation in our programs. This information can be found in the APR's, which demonstrate the meeting of goals and requirements as described in Finding 1 and **Attachments F, G, & H.**

**U.S. Veterans Initiative Developed Adequate Financial Management Systems:**

U.S. Veterans Initiative's financial systems track funds by program as well as funding source. Separate spreadsheets are used within our system and are acceptable according to regulations, although not preferred by this HUD IG representative. The HUD IG representative poses the supposition that program activities funded by multiple sources "could be arbitrarily allocated". However, they were not arbitrarily allocated as is clearly demonstrated in grant applications, technical submissions, APR's, throughout U.S. Veterans Initiative's Accounting Systems, computer systems, source documentation, management review, and is summarized on the Cash Match Spread Sheet provided in **Attachment A**. (please refer to Finding 1, **Attachments B, D, & E.**)

To again address the concerns that the Honolulu Community Planning and Development Office has had with our program in Hawaii...(please see Binder labeled Hawaii Correspondence)

It is accurate that the HUD funding was not only available but was at risk of being "swept" if U.S. Veterans Initiative was not able to begin services to homeless veterans in Honolulu. It is also accurate that although we had been working on the project since 1998, the V.A. Homeless Providers Grant & Per Diem funding was not yet available due to the issues surrounding transfer of base closure property. This resulted in our need to request some changes to our budget and our goals through the HUD office, which, as was described in our response to Finding 2, was not done. We are providing the HUD OIG with all documentation and correspondence related to these issues and the resolution of those issues with the Honolulu CPD Office and will be shipping that documentation to HUD upon completion of this final report. It is unclear why we



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

must continue to defend ourselves over issues that have been resolved.

The end of the last paragraph on page 22 of the Draft Report states "because of the inadequate accounting system...the adjustments made are not properly recorded in the system". U.S. Veterans Initiative has provided documentation and walked the HUD IG representative through the adjustment process to demonstrate that this is not the case. The adjustments were properly recorded. The IG representative argued that what he considered "unrecovered expenses" should be reclassified/journalized to another cost center. This would distort program results and would be contrary to our accounting procedures. The audit report comments on the consistency of our procedures, but reclassifying this cost would have been inconsistent with our procedures. The bottom line is that HUD was paid back through future draws.

Cash Match issues are addressed in our response to Finding 1 (please see **Attachments A, B, & E**).

**U.S. Veterans Initiative Modified Financial Systems as necessary:**

The HUD IG representative states that U.S. Veterans Initiative did not modify its financial management systems as it grew and funding increased, demonstrating, yet again, our lack of emphasis on our responsibilities to ensure compliance with federal requirements. It is hard to imagine where this statement comes from. A review of U.S. Veterans Initiative's annual independent audit reports will demonstrate that we regularly modified our financial systems as we grew and as audits and monitoring visits pointed out deficiencies that we were previously unaware of. It is accurate that on July 1, 2004 we implemented a new coding system, which will allow us to operate even more effectively and efficiently. (please see **Attachment N**)

**Supportive Housing Program Funds Were Spent As Approved!**

U.S. Veterans Initiative's financial reports do reflect grant expenses and provide a comparison with budgeted



September 15, 2004  
DRAFT Audit Response  
Case # 2004 – LA - xxx

Finding 3

amounts. As demonstration of this, please see **Attachment R**, which is a statement of operations for all programs. The HUD IG representative does not provide evidence to support his statement that HUD has no assurance that funds are being used for authorized or allowable expenses.

**Procurement & Contract Administration Requirements:**

U.S. Veterans Initiative has two contracts, which we have considered “sole source”. Justification for lack of a competitive procurement process has been provided for the Business Services Agreement in **Attachments O & P**. Similarly, the relationship with Montgomery Niemeyer & Co. LLC has been in existence since the non-profit now known as U.S. Veterans Initiative was operationalized in 1993 as described in **Attachment O**. An RFP was released six weeks ago to ensure competitive procurement of these services going forward (see **Attachment S**).

The IG representative states that the Business Services Agreement expired in the year 2000. The agreement was renewed by Board Resolutions (**Attachment T**).

The work produced by our contractors evidences that the terms of the contract have been upheld.

It is accurate to state that our contracts did not contain all the provisional language required. This has been amended. (**Attachment Q**). However, all of the required provisions have been met.

**U.S. Veterans Initiative's Business Services Agreement:**

The organization now known as U.S. Veterans Initiative was incorporated in 1992 with a loan of \$40,000 and no staff. Initial bookkeeping was performed by our development partner, Cantwell Anderson Inc., because they had the infrastructure to assume the record keeping activities for a small company. The details of the founding of the organization and the initiation and oversight of those relationships are described in **Attachments O & P** (memo from USVI's Executive Director & memo from Independent Public Accountant). Although the contract



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

under which our accounting services are currently delivered is dated 1998, it is simply a restating of the same relationship that has existed since the inception of the organization. The contract was created and approved as a result of our previous IG audit through the Corporation for National Service. Back up documentation demonstrating the pre-existence of these contractual relationships is found in **Attachment U** (Audit workpapers from Independent Public Accountant).

As in other places throughout this IG Report, the HUD IG representative presents possible motivations behind the actions of United States Veterans Initiative. It is difficult to understand how these negative conclusions were drawn since the HUD IG representative never interviewed Mr. Cantwell or any member of U.S. Veterans Initiative's Board of Directors how these contracts came into existence. The HUD IG representative poses a "possible" supposition that the agreements were entered into to give preferential treatment to Mr. Thomas Cantwell and to Cantwell Anderson, Inc. This statement is pejorative and in fact, the very opposite is true as is described in **Attachments O & P**. Mr. Cantwell and Cantwell Anderson Inc. gave preferential treatment to U.S. Veterans Initiative for years by providing infrastructure for accounting services, business planning and modeling, and program development that the start up non-profit could not afford. All of these activities were monitored by an oversight panel controlled by the federal courts as described in **Attachment O**.

Recently, U.S. Veterans Initiative made an attempt to solicit bids to outsource the accounting services currently covered in the Business Services Agreement. The results of these efforts are described in **Attachment V**.

Page 26 of the Draft Report states, "U.S. Veterans Initiative Officials claimed they were knowledgeable of and adhered to the procurement requirements...; however they were unable to explain why they did not follow them for the Business Services Agreement or for the Independent Public Accountant Services". Again, the two individuals in question, Jeff Coleman and Lynn Gilmore from the



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

Accounting Department, did not work for the organization at the time those decisions were made and therefore it is reasonable that they would know the regulations but would not have implemented them in a process in which they were not involved.

**Contractor Performance:**

**Attachment L** provides supporting documentation for the fees paid to Mr. Thomas Cantwell for consulting services. Documentation in the form of calendars, phone bills, expense reports, daily work activities, and the existence and expansion of the organization were available to support the fees at the time they were paid. In addition, most local HUD monitors have worked closely with Mr. Cantwell in the development of the programs and services provided to homeless veterans. Site Directors are currently working with these local HUD representatives to resolve this issue.

**Required Provisions:**

It is correct to say that we did not include all of the contractual provisions in the Business Services Agreement. This has been corrected as demonstrated in **Attachment Q**. Fortunately these omissions did not cause harm to our organization or our funding sources in any way that we are aware of.

**Indirect Cost Rate:**

As the result of a CNS OIG audit in 1998, the Corporation for National Service appointed themselves our Cognizant Agency and provided oversight and approval of an Indirect Cost Rate. We have applied the rate as we believed it was to be applied. We have regularly requested clarification from our Cognizant Agency about whether or not our original Provisional Rate was still in effect. We have never been given direction that our Indirect Cost Rate is no longer in effect. We have done all we know to do to work with the HUD Field Offices that would not accept our rate, to apply the rate as they want to see it applied. It has been our understanding that the Cognizant Agency remains the same for five years, at which time our budget is re-examined to

## Appendix H



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

determine whether or not we would have a different Cognizant Agency. The expiration date would be 6/30/2005, one year from now.

It is accurate to state that U.S. Veterans Initiative did not establish rates for facilities outside Los Angeles. It has been our understanding from reviewing the regulations that when the purpose and activities remain the same in each location, a new rate is not required. Please see **Attachment W**, OMB Circular A-122, D.1.a. "Where a non-profit organization has only one major function...the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures...".

The Draft Audit Report accurately states that in 2001, U.S. Veterans Initiative adjusted overhead rates for Arizona and Nevada as directed by the San Francisco Community Planning and Development Office. Although not mentioned, it is also accurate to state that the Honolulu CPD Office refused to pay any of our rate and therefore they have never been charged for indirect expenses. However, page 30, paragraph 1 states "the reduction in indirect costs charged to the Arizona and Nevada grants inappropriately increases the amount of costs that must be allocated to the other Supportive Housing Program grants." U.S. Veterans Initiative Officials questioned the HUD IG representative twice about where he found information that would substantiate this claim. He did not find anything that substantiates this claim because it is not true. Those expenses are still held on the books of Veterans Initiative as unfunded expenses. This has been demonstrated to the HUD IG office. Please see **Attachment X**.

Page 30, paragraph 2 states that "U.S. Veterans Initiative 'inappropriately' used the indirect cost rates established for the Los Angeles County facility for all its other locations, except for Arizona and Nevada where they 'arbitrarily' adjusted Los Angeles county rates."

- a. It is our understanding that the Indirect Cost Rate did not need to be adjusted to each location as long as the activities



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

and purpose were essentially the same in those locations. (**Attachment W**) Again, the word “inappropriate” is perjorative and implies ill-intent.

- b. As described above, our adjustment for Arizona and Nevada (and Honolulu which is oddly not mentioned) was a response to directives by our HUD CPD Offices in those locations. There was nothing arbitrary about it!

Written Procedures for implementing the Indirect Cost Rate are part of the rate that was originally approved. A more simplified version is found in **Attachment X**. When U.S. Veterans Initiative forwards its request for a revised Provisional Indirect Cost Rate to the U.S. Department of Veterans Affairs, we will include written procedures for implementing the rate.

**Close Out Procedures:**

**CA16B90005 & CA16R151121** (\$117,077 unexpended funds): U.S. Veterans Initiative staff has met with LAHSA officials and are assured that we have provided them with all information they currently need to close out these grants. Please see their response to this issue.

**CA16B960302** (\$0 unexpended funds): U.S. Veterans Initiative staff has met with the City of Long Beach and are assured that we have provided them with all information they currently need to close out this grant. Please see their response to this issue.

**AZ01B002030** (\$47,542 unexpended funds): **Attachment Y** includes the documentation sent to Phoenix as requested by them on July 27, 2004. It is our understanding that this is the only information they currently need to close out this grant.

**TX01B910018** (\$0 unexpended funds): **Attachment Y** also includes the documentation sent to Houston although no documentation has been requested by that office. It is our understanding that at this time they are in need of no further information from us.

U.S. Veterans Initiative “officials” are aware that federal grants require a close out, as demonstrated by the close outs



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

you will find on file with our Department of Labor and Corporation for National Service grants. It was our understanding that we would receive information from our funding agency (LAHSA, Long Beach, etc.) regarding the forms they would like for us to use for this close out process. Our site directors are now asking for clarification from each of our HUD monitors regarding what documentation they require for the close out of a grant.

**U.S. Veterans Initiative's Responsibilities & Requirements:**

U.S. Veterans Initiative believes that when HUD reviews the documentation that has been provided to the HUD IG representative, and when HUD reviews the results of the HUD programs in question, HUD will not conclude that U.S. Veterans Initiative chose to ignore HUD requirements.

**Grant Funds Were Used Properly:**

Once again, we would draw your attention to **Attachments F, G, & H**, which demonstrate that U.S. Veterans Initiative has met and often exceeded program expectations. Where start-up programs have not met initial expectations, adjustments have been made. Again the example is used of the same performance measure in the start up year of the Hawaii program. Again, I would draw HUD's attention to the adjustments that were made in that program, which is now meeting or exceeding 90% of its goals, and the many programs that have exceeded expectations as described in Finding 1.

**Recommendations:**

3A. U.S. Veterans Initiative believes the HUD Office will agree that suspending our SHP funding is absolutely unnecessary, and would certainly be an unfortunate outcome for the **more than 9300 homeless veterans currently being served by U.S. Veterans Initiative HUD programs**. We have demonstrated an understanding of areas where additional controls need to be implemented to ensure all expenditures meet HUD guidelines, and have taken steps to implement those controls. Please see **Attachments M & N**. Upon examination, we believe HUD



September 15, 2004  
DRAFT Audit Response  
Case # 2004 – LA - xxx

Finding 3

will agree that the expenditures were eligible and used in the direct provision of service to homeless veterans.

3B. The HUD IG representative is aware that U.S. Veterans Initiative's financial systems have been revised (**Attachment N**).

3C. **Attachments O & P** provide information substantiating the sole source nature of our Business Services Contract. U.S. Veterans Initiative is in the process of implementing a plan that involves placing our accounting services within our organization structure as opposed to contracting for those services.

3D. U.S. Veterans Initiative has already implemented a procedure to ensure that documentation exists before grant expenses are paid (please see **Attachment N**). The contract has already been revised as previously stated and demonstrated in **Attachment Q**.

As previously stated, written procedures regarding the revised Provisional Indirect Cost Rate will be included with the request for this approval to the U.S. Department of Veterans Affairs. It is our hope that when that rate is approved regional HUD CPD offices will allow us to apply that rate consistently across all locations.

3E. As previously stated, U.S. Veterans Initiative has developed a revised Indirect Cost Rate (please see **Attachment Z**) and is currently testing it against actual expenditures for the first three months of our fiscal year. When the testing is complete, we will submit a request to the U.S. Department of Veterans Affairs to accept this as our revised Provisional Indirect Cost Rate. When we receive word from their office that they have accepted this rate, U.S. Veterans Initiative will begin implementing this new Provisional Indirect Cost Rate.

3F. If Los Angeles Homeless Services Authority is required to submit closeout documentation above and beyond what they have already been required to do, U.S. Veterans Initiative will provide any assistance necessary in this process.

## Appendix H



September 15, 2004  
DRAFT Audit Response  
Case # 2004 - LA - xxx

Finding 3

3G. U.S. Veterans Initiative was asked on July 27, 2004 to provide closeout documentation for the Arizona grant in question. This has already been done as demonstrated in **Attachment Y**.

In addition, the two grants not mentioned in the IG's recommendations but mentioned in the narrative of the Final Draft Report have also been resolved to the best of our ability at this time.

## Appendix I

# Auditee Comments – Los Angeles Homeless Services Authority



LOS ANGELES  
HOMELESS  
SERVICES  
AUTHORITY

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Executive Director

Robin Conerly  
Deputy Director

Board of Commissioners

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September 15, 2004

Joan S. Hobbs, Regional Inspector General for Audit  
Office of Inspector General (OIG)  
611 West 6<sup>th</sup> Street, Suite 1160  
Los Angeles, CA 90017

## **RE: RESPONSE TO DRAFT AUDIT REPORT OF U.S. VETERANS INITIATIVE, INC.; A SUPPORTIVE HOUSING GRANTEE**

Dear Ms. Hobbs:

We have reviewed the final draft report issued by your office on September 1, 2004 related to fifteen Supportive Housing Program (SHP) grants, of which four were administered through LAHSA. Your report includes three major findings summarizing issues found in most of the grants reviewed. Specific recommendations were directed to LAHSA, the City of Long Beach, and U.S. Veterans Initiative (USVI) directly. While our responses are limited to those issues specific to the LAHSA grants, many of the concerns are similar for all fifteen grants.

As we stated previously, LAHSA considers all potential audit findings to be serious matters. Due to time constraints and a severe staff shortage at LAHSA, this response is based on our review of documentation on hand at LAHSA, and additional supporting justification provided by USVI on Tuesday, September 13, 2004. In most cases, these included summary spreadsheets and copies of general ledger reports; original documentation of actual expenditures supporting the general ledger entries has not been reviewed by LAHSA. However, based on our previous monitoring visits and general experience with the agency, we believe the documentation we have reviewed presents an accurate depiction of fiscal operations of the programs.

Based on our current analysis and our experience with the agency and the four USVI grants administered by LAHSA, we have outlined our response to each of the findings below:

### Finding #1: USVI Did Not Meet Matching Funds Requirements

Your report states that USVI was unable to support any of the \$7.2 million required as cash match for the Supportive Housing Program grant funds expended. We disagree with this statement. Our conclusion relates to two issues that LAHSA views differently from the OIG auditors:

- 1) OIG auditors interpreted the Cash Match Requirement for each grant as that amount noted in the original Technical Submission for each program, which was submitted prior to HUD's issuance of the grant agreement, or LAHSA's contract execution. In most cases, this amount was a budget projection or estimate, and greatly exceeded the statutory HUD requirement of 25% for Supportive Services, which was imposed on all SHP grants beginning in 1999. LAHSA, based on guidance from the local HUD office, determines grant compliance if agencies can show a minimum cash match in accordance with HUD requirements, rather than a cash match based on the Technical Submission. In addition, of the four LAHSA-administered SHP grants, one was issued prior to

## Appendix I

---

Ms. Hobbs  
September 15, 2004  
Page 2 of 6

1999 (CA16R151121, a SHP95 grant), when there was no requirement to provide a Supportive Services Cash match. Therefore, we believe OIG auditors significantly overstated the cash match requirements.

- 2) OIG auditors stated that cash match funding was not supported as expenditures for the individual grants, and that costs paid by other federal sources were not included in the approved grant budgets or allowed in the SHP grants. USVI has attempted to classify expenditures separately for each grant (in accordance with grantee requirements), even when several grants support a single program. LAHSA auditors have considered separate funding sources, even when classified in separate grant accounts, as qualified match, when agencies can show that all expenditures support a single program. This is the case with the three LAHSA grants under consideration. In addition, we recognize that some expenditures classified in other grant accounts may not be eligible as match for SHP Supportive Services. In these cases, specific expense line items are precluded from the total amount, in calculating a valid "match" paid by other grants.

Our review of Annual Progress Reports and general ledger reports showing program expenditures paid by non-SHP sources indicate that USVI has complied with cash match requirements as imposed by HUD. Specifically, for grants CA16B00005, CA16B100025 and CA16B200052, non-SHP funds were expended on eligible program activities that met or exceeded 25% of SHP Supportive Services funds drawn. We acknowledge that in some cases these amounts were less than what was originally anticipated, as noted on the Technical Submission; however, we believe that USVI complied with the 25% HUD requirement, which was also included in all LAHSA contracts.

### Finding #2: USVI Spent SHP funds for Ineligible and Unsupported Expenses

Your report states that USVI spent at least \$633,348 in SHP funds for ineligible (\$498,248) and unsupported (\$135,100) expenses. We are working with USVI to analyze specific items noted that relate to the four LAHSA administered contracts. However, we disagree with many of the amounts disallowed by OIG auditors.

Salary Expenses: \$19,715 charged to CA16B100025 was disallowed by auditors based on a discrepancy noted for a staff person's title, rather than on an analysis of the job functions of that staff person. LAHSA determines SHP eligibility by actual work performance of a given staff person, regardless of their title.

Non-Budgeted Items: Significant amounts for LAHSA contracts CA16R151121 and CA16B200052 were considered ineligible because specific items were not budgeted. While we acknowledge that more detailed budgets could have been used to prevent some misunderstanding, we believe that the majority of these items are, in fact, eligible expenditures. For example, telephone charges (\$20,123 and \$1,849) relate to cellular telephones used by direct personnel, they were not land-line phones, with related charges included in overall administrative expense. Our initial review of Fringe Benefits indicates that USVI actually charged less than the amounts budgeted, as applied to direct salaries, and administration charges appear reasonable, i.e., charged as incurred up to the 5% maximum total SHP amount, over the life of the grant. It appears that OIG auditors applied an extremely narrow definition to their consideration of what was

Ms. Hobbs  
September 15, 2004  
Page 3 of 6

approved under budget. We agree these items need to be further investigated and justified by USVI; however, from the documentation we have reviewed thus far, we believe the total amount questioned will be substantially reduced, if not eliminated.

**Unallowable Grant Expenses:** USVI has stated that they agree that the \$5,470 noted for CA16R151121 was ineligible. The \$6 noted as unallowable as "travel" (CA16B200052) was incurred for parking of a direct staff position; this could be better classified as "mileage", an allowable item.

Significant amounts are noted as ineligible because they were paid after 90 days of the grant's program expiration (\$45,513 for CA16B900005 and \$12,572 for CA16R151121). We acknowledge that these funds were drawn at a late date; however, LAHSA approved final invoices for the programs based on expenditures incurred during the program period, close-outs and final budget and invoice adjustments notwithstanding. Therefore, the full amounts noted relate to eligible expenses.

Substantially all of the "Unsupported Expenses" relate to consulting fees paid to Cantwell-Anderson, Inc. that were included in the General Overhead, and applied to SHP grants based on direct labor dollars. We agree that better documentation, including monthly invoices with tasks and/or hours of work performed, should have been provided by the consultant, prior to payment. On September 13, 2004, USVI supplied LAHSA with documents attesting to the significant work performed by Mr. Cantwell on behalf of USVI, over the period January 1, 2001 through December 31, 2003. Tasks noted on Mr. Cantwell's calendar each month over all three years, as well as actual cell phone records over one year were provided. These indicated an annual average of 1660 hours were spent on USVI programs.

An additional \$540 was considered as unsupported (CA16B100025) because expense items were not entered into the new accounting system, upon conversion. Assuming these were valid and program-eligible items, this can be easily rectified through an accounting adjustment, and should not be considered disallowed.

**Finding #3: USVI Did Not Administer its SHP Grants in Accordance with Requirements**  
We agree that agencies receiving SHP funds should comply with all federal grant requirements. Generally, LAHSA contracts are more restrictive than SHP regulations, since they include terminology regarding mandatory compliance with federal requirements and also include additional detailed regulations imposed by local government. Your report includes four specific findings in this section.

- 1) Develop an adequate financial management system. OIG auditors based many of their conclusions on the general inadequacy of the accounting system used by USVI. As a pass-through agency responsible for monitoring approximately 75 agencies, and having our own internal detailed financial system, LAHSA understands this issue and shares a frustration with OIG auditors. As a large agency with many programs that are jointly funded by many sources, USVI must implement a system capable of tracking expenditures by program and by grant. We believe this is primarily a reporting issue, rather than a compliance problem. Specific general ledger expenditure reports should be easily generated for grantors, based on their specific needs. Since many expenses of a given program are shared by different grants, a financial system must be comprehensive enough to meet the overall needs of the agency. However, a

## Appendix I

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Ms. Hobbs  
September 15, 2004  
Page 4 of 6

system may not immediately or easily accommodate a specific grantor. We support the recommendation that USVI improve their financial management system (which they are currently doing); however, we also believe that the OIG auditors may have focused too narrowly on internal accounting procedures related to SHP financial reporting requirements.

- 2) Comply with procurement and contract administration requirements. We agree with this finding and recommendation that USVI should competitively procure all consulting services, or justify the lack of competition, especially given the large amount of consulting fees paid to the one organization noted in this report. We also agree that documentation must be submitted to support consulting services rendered, prior to payment. These requirements are also noted in the LAHSA contractor accounting handbook, included as an exhibit to all LAHSA contracts.
- 3) Establish and implement indirect cost rates as required. We agree with this finding and recommendation, to ensure USVI comes fully into compliance with OMB Circulars A-122, and A-110.
- 4) Close out expired grants. We agree with this finding and recommendation, and LAHSA will pursue a financial closeout for expired grants CA16B90005 and CA16R151121. However, the current procedure is that the local HUD Office formally initiates all such closeouts. For example, on January 6, 2004, LAHSA received 20 such Continuum of Care Grantee Closeout letters from the LA HUD office. Current procedures include LAHSA verifying information noted in these requests, and certifying completeness and accuracy of the document, then sending the document back to HUD. Therefore, typically, LAHSA awaits the request for closeout certification from HUD, rather than initiating them.

Summary Finding: USVI did not fully meet SHP goals

A summary statement following each of the three major findings included in your report states that each of these issues "prevented USVI from carrying out other eligible activities to enable them to fully meet program goals and requirements". We would like to comment on this statement, as we believe that USVI made good progress towards meeting their goals in performance of the four LAHSA-administered grants.

SHP requires grantees to develop objectives under the three main goals of Residential Stability (also known as Obtaining and Remaining in Permanent Housing), Increased Skills and Income, and Greater Self-Determination. Objectives developed under each of these categories are **projections** of the expected accomplishments of participants that are made before the program begins operation. The accomplishment of these objectives by program participants is dependent upon various factors including, 1) the homeless persons who enter the program, 2) the amount and severity of the psychosocial barriers faced by these persons, and 3) the commitment and ability of each homeless person to avail themselves of supportive services provided and make a positive change in his or her life.

Given this, it is not reasonable or even desirable for a program to exactly meet 100% accomplishment of each projected objective. If a program were to achieve 100% of each objective it is probably indicative of poorly developed objectives that do not measure a substantive change in each person's life leading to their self-sufficiency. An example of such a goal would be "100% of clients will develop a case plan", when doing

Ms. Hobbs  
September 15, 2004  
Page 5 of 6

so is a requirement of the program. It is more reasonable to expect that program participants will meet the majority of the program's goals, while bearing in mind that barriers such as mental/emotional health problems and substance abuse relapse will prevent all of a program's participants from achieving all objectives.

With these concepts in mind, an analysis of the Annual Progress Reports (APR) for each operating year of the four grants administered by LAHSA revealed an above average accomplishment of program goals during the term of the grants. APRs were reviewed for CA16B900-005 (an expired two year renewal grant with 2 APRs), CA16B100025 (a two year renewal grant that has submitted 1 APR) CA16R15-1121 (an expired three year grant with 3 APRs), and CA16B200052 (a one year renewal grant for which the APR is currently under review).

These APRs covering seven operating years in four grants reported on a total of sixty-nine (69) program objectives. Of these, 40 objectives exceeded 100% achievement of projected goals. 10 objectives achieved 100% of projected goals, and 19 objectives achieved less than 100% of projected goals.

The 19 objectives that did not achieve 100% of projected goals consisted of the following:

- ✓ 2 residential stability objectives in the first operating year of CA16R15-1121 reported 0 to 0.05% achievement. This was due to the fact that the goal was based upon participants remaining in transitional housing for one year, when at the time of the report the transitional housing units had only been open for 8 months. The delay in the construction of these units at the former Cabrillo Naval Station (now known as the Villages at Cabrillo) was caused by issues relating to the Military Base Reuse Act and therefore was beyond the control of USVI.
- ✓ 7 increased skills and income objectives in CA16R15-1121 reported achievement over the three operating years ranging from 27% to 95% of the projected goal. This related largely to goals requiring participants to obtain jobs within three months of entry into the program and increasing their income by 10% over a two- year period. Various factors including a depressed local economy and job market in the Long Beach area and the difficulty in measuring increases in individual participant income over two operating years contributed to the lower than projected achievement of the goals.
- ✓ The remaining 10 objectives reporting achievement ranging from 72% to 99% of projected goals were a combination of all three SHP goal categories in all operating years for CA16R15-1121, CA16B900-005, and CA16B200052. This somewhat lower achievement of projected goals is attributed to various factors beyond the control of USVI, including but not limited to, participants dropping out of the program because of substance abuse relapse, refusal to follow program rules, refusal to provide housing placement/forwarding information upon discharge, a slow local economy and poor job market, and refusing to establish a savings account.

In conclusion, while it may be technically accurate to state that USVI did not fully meet all of the SHP goals in its grants, LAHSA believes that the analysis of the goal achievements for the four grants it administers shows a pattern of normal and

## Appendix I

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Ms. Hobbs  
September 15, 2004  
Page 6 of 6

reasonable goal accomplishment that would be expected based upon the population served and high quality supportive services provided.

Again, I want to stress that LAHSA considers your audit report very important, and takes seriously all noted findings and related recommendations. While the administration and accounting procedures at any agency can be improved, we disagree with many of the statements made in your report, as described above.

We are committed to ensuring LAHSA-administered grants adhere to all program and fiscal requirements. Therefore, we anticipate that we will continue to work with your office, along with staff from the local HUD CPD Office and USVI, to resolve these issues. If you have any questions, please contact me at (213) 683-3328.

Sincerely,



Mitchell Netburn  
Executive Director

C: JoAnn Garcia, Chair, LAHSA Commission

# Auditee Comments – City of Long Beach



2525 GRAND AVENUE • LONG BEACH, CALIFORNIA 90815 • (562) 570-4000

September 14, 2004

Joan S Hobbs  
U.S. Department of Housing and Urban Development  
Office of Inspector General  
Pacific/Hawaii Region IX  
611 West Sixth Street, Suite 1160  
Los Angeles, CA 90017-8016

Re: Audit of Contracts CA16B960302 and CA16B806003

Dear Ms. Hobbs:

The following are areas of the audit that require clarification for the City of Long Beach to determine if the findings are accurate. The City of Long Beach is requesting that the entire report clarify and delineate specifically which grants are being discussed.

1. Page iii (Executive Summary) first paragraph: Identify the federal regulation(s) and year(s) referenced and identify for which grant year(s), as the regulations have changed. The two Long Beach grants being audited were for 1996 and 1998, years in which there was no requirement of cash match for supportive services or leasing based on the 1996 and 1998 Code of Federal Regulations (CFR) 24 Part 583. The federal regulations did not require a cash match until 1999.
2. Page iv (Executive Summary) under recommendations first paragraph: (1) Because the CFR for 1996 and 1998 do not require cash match, neither the City of Long Beach nor U.S. Veterans Initiative (sub-grantee) are required to repay the Department of Housing and Urban Development (HUD) any funds for contracts CA16B960302 and CA16B806003. A cash match was not required in the CFR, technical submissions or the contracts between the City of Long Beach and HUD; (2) The City of Long Beach and the sub-grantee have complied with 24 CFR, Part 583 for the contract years (1996 and 1998); therefore this statement is not relative to Long Beach's contracts; (7) For both contracts CA16B960302 and CA16B806003 all funds have been expended and formal close-out procedures have been initiated. Note that on Page 51 of the audit report, it indicates that for grant CAB16B806003 there was \$450 of ineligible expenses. Prior to finalizing the close out for the contract the City will work with the sub-grantee to make a budget amendment to the grant, which will include \$450 of eligible expenses to cover the expenses deemed ineligible by the audit.
3. Page vii (Table of Contents) under the findings section: The Long Beach grants did meet all requirements under the CFR and the contracts with HUD; therefore this statement does not apply to the two Long Beach contracts under review.

Page 1 of 3

4. Page 2 (Introductions) under audit objectives, scope and methodology 1<sup>st</sup> bulleted line: The City of Long Beach needs specific information regarding the requirements of HUD, OMB and the grant agreement that were relevant to the two Long Beach grants because the City's review of 24 CFR Part 583 for 1996 and 1998 that governs the two contracts (CA16B960302 and CA16B806003) and the grant agreements between HUD and the City and those between the City and sub-grantee indicate that they were in compliance.
5. Page 5 Finding 1 under cash match requirements: HUD needs to identify and clarify which regulations were utilized to determine that a cash match was required and to clarify where in the grant agreement there is a requirement for cash match on supportive service or lease costs for contracts executed in 1996 and 1998. The City feels there is ambiguity in the statements made throughout this paragraph related to match where it is stated, "Beginning with fiscal year 1999 the appropriation for HUD's budget states that in Supportive Housing Program all funding for services must be matched 25 percent." NOTE: the two Long Beach contracts in questions are from 1996 and 1998. Therefore the City of Long Beach requests that the whole section delineate specifically which grants (or grants to which cities or continuums) are being discussed. NOTE for both contracts: upon renewal the City and sub-grantee began requiring cash match as required by the change in 24 CFR (for the year 2000) and the HUD grant agreement. All of the appropriate match documentation is on record with the City.
6. Page 6 finding 1 under the section cash match requirements not met: The two City of Long Beach grants (CA16B960302 - 1996 and CA16B806003 - 1998) should be deleted from this entire section (covering pages 6-8) as they pre-date the cash match requirement in the CFR of 1999 as stated on page 5 of the report.
7. Page 8 finding 1 under the section - U.S. Veterans Initiative failed to ensure it understood and complied, first paragraph: The contracts under review for the City of Long Beach (CA16B960302 - 1996 and CA16B806003 - 1998) had no cash match requirements in the CFR or the HUD grant agreements for the contracting years, so there was no need for U.S. Veterans Initiative to emphasize compliance because there was no match with which to comply.
8. Page 9 finding 1 under section U.S. Veterans Initiative Programs Not Maximized: Because the contracts under review for the City of Long Beach (CA16B960302 - 1996 and CA16B806003 - 1998) had no cash match requirements in the CFR regulation or the HUD grant agreement for the contracting years this issue did not impact the sub-grantee's ability to meet 100% of their program goals. For Contract CA16B960302 – 1996 the last Annual Progress Report (APR) for the period of May 1, 2003 thru April 30, 2004 shows that the sub-grantee met and/or exceeded programmatic goals. For the CA16B806003 – 1998 the last APR for the period of September 1, 2002 thru August 30, 2003 shows that the sub-grantee met most of its programmatic goals.

9. Page 9 finding 1 under section recommendations: HUD needs to clarify in the first sentence who the following statement is being made to "we recommend that you require:" Due to the ambiguity of Section 1A that the two grants in question are prior to the 1999 cash match requirement, the City of Long Beach requests that the whole section delineate specifically which grants are Long Beach versus other Continuum's. The City requests that HUD clarify section 1C for a cash match for contracts (CA16B960302 - 1996 and CA16B806003 - 1998), in which the regulations for those years, nor the grant agreement require a cash match.

The City of Long Beach looks forward to seeing these comments addressed in the final report. If you have any additional questions or need further assistance please contact me at (562) 570-4001.

Sincerely,

*Corinne Schneider*

Corinne Schneider,  
Manager, Bureau of Human and Social Services

Cc: United States Veterans Initiative  
William Vasquez, Director of Community Planning and Development Division  
Steven McRoberts, Office of Inspector General