
AUDIT REPORT



WOMENRISING, INC.
HUD/Supportive Housing Program
Jersey City, New Jersey

2006-NY-1002

January 31, 2006

OFFICE OF AUDIT
New York/New Jersey Region



Issue Date January 31, 2006

Audit Report Number 2006-NY-1002

TO: Kathleen Naymola, Director, Community Planning and Development, 2FD

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: WomenRising, Inc., Jersey City, New Jersey, Did Not Always Comply with HUD/Supportive Housing Program Requirements

HIGHLIGHTS

What We Audited and Why

We completed a limited review of WomenRising, Inc. (the grantee), located in Jersey City, New Jersey. The review was initiated based on a complaint that was received from the Government Accountability Office. The complaint generally alleged that the grantee was misappropriating funds in regard to reimbursable expenses and the payment of salaries under its Project Home, part of the U.S. Department of Housing and Urban Development's (HUD) Supportive Housing Program.

Our review objectives were to determine whether (1) the allegations in the complaint were valid, (2) the grantee has adequate controls over disbursements and drawdowns, and (3) the grantee's cost allocation plan was approved by HUD.

What We Found

Our review concluded that (1) the allegations in the complaint regarding HUD funding were not valid (see appendix B); (2) although the grantee generally had adequate controls over disbursements and drawdowns, \$94,759 in drawdowns was

not supported by invoices or evidence that costs were incurred; and (3) the grantee's cost allocation plan had not been approved by HUD.

What We Recommend

We recommend that the director of HUD's New Jersey Office of Community Planning and Development instruct the grantee to provide documentation for the \$94,597 in drawdowns or reimburse HUD from nonfederal funds for the unsupported costs. We also recommended that the grantee establish controls to ensure that all drawdowns are properly supported with documentation to show that eligible costs have been incurred, and submit its cost allocation plan to HUD for review and approval.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit and at an audit exit conference held on January 24, 2006. Auditee officials provided their written comments on January 25, 2006 and generally agreed with the findings and recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix C of this report.

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BACKGROUND AND OBJECTIVES

WomenRising, Inc. (grantee), is a nonprofit organization located in Jersey City, New Jersey. It provides shelter, counseling services and residential programs to homeless women and their children to help them achieve self-sufficiency and live safe, fulfilling, and productive lives. During the period from March 1, 2000, through June 30, 2003, the grantee received its initial Supportive Housing Program grant of \$2,404,532 from the U.S. Department of Housing and Urban Development (HUD) (Project No. NJ39-B96-1202) to promote Project Home, a transitional housing project for homeless women who were the victims of domestic violence and substance abuse. The funding was later renewed for \$644,000 each operating year for 2004 and 2005 under separate project numbers as follows:

Project No. NJ39-B20-6003 - July 1, 2003 to June 30, 2004.

Project No. NJ39-B30-6003 - July 1, 2004 to June 30, 2005.

The Government Accountability Office received a complaint regarding fiscal malfeasance of the grantee in May 2001. It forwarded the complaint to the director of HUD's Investigative Support/Hotline Division in December 2001. The complaint was then referred to the HUD-Office of Inspector General's (OIG) New York Office of Investigation, which referred it to the HUD-OIG New York Office of Audit in August 2002. However, due to staff constraints that resulted from the September 11, 2001, terrorists attacks on New York City, the review was not performed. However, in response to another request on July 20, 2005, from the director of the Program Integrity (Hotline) Division, we initiated a limited review of WomenRising, Inc.

The objectives of this review were to determine whether (1) the allegations in the complaint were valid, (2) the grantee has adequate controls over disbursements and drawdowns, and (3) the grantee's cost allocation plan was approved by HUD.

RESULTS OF AUDIT

Finding 1: The Grantee Did Not Always Follow HUD Requirements for the Supportive Housing Program

The grantee did not always follow HUD regulations for the Supportive Housing Program. It did not provide adequate support for its final 2004 and 2005 drawdowns and did not obtain HUD's approval of its alternative cost allocation plan. These problems occurred because the grantee believed that it was entitled to the last drawdown and failed to follow HUD requirements. As a result, \$94,759 in reimbursements could not be substantiated, and HUD was not afforded the opportunity to determine whether the grantee's cost allocation plan was fair and reasonable.

Final Drawdowns Not Supported

Generally, our testing of drawdowns and disbursements for the initial supportive housing grant showed that the internal controls were effective. However, we noted that the grantee's final drawdowns of \$94,759 related to its 2004 and 2005 supportive housing grant were made without evidence that costs were incurred or documented. This occurred because the grantee believed it was entitled to the full amount of the grant; therefore, it drew down these funds without adequate support. Office of Management and Budget Circular A-122, paragraph A, entitled General Principles, provides that to be reimbursed, allowable direct and indirect costs must be incurred and adequately documented. Consequently, since the grantee drew down \$94,759 without proper supporting documentation, these costs are considered unsupported.

Unapproved Alternative Cost Allocation Plan

Our review also disclosed that the grantee applied an alternative cost allocation methodology that had not been approved by HUD for indirect expenses such as administrative costs. It allocated indirect costs to each program according to the grant's percentage of the total funds, although its actual costs allocated to the supportive housing grants were much less than what would have been permitted under this methodology due to a 5 percent cap in the grant agreement. HUD Office of Community Planning and Development staff stated that Office of Management and Budget Circular A-122 requires the grantee to obtain HUD approval before applying an alternative cost allocation methodology. Subparagraph E2b states: "A non-profit organization, which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than three months after the effective date of

the award.” Therefore, by not submitting the alternative allocation plan for review, HUD was not afforded the opportunity to determine whether the grantee’s alternative allocation methodology was fair and reasonable.

Recommendations

We recommend that the director of HUD’s New Jersey Office of Community Planning and Development

- 1A. Instruct the grantee to provide support for the \$94,759 in drawdowns or reimburse the Supportive Housing Program from non-federal funds for the unsupported costs.
- 1B. Instruct the grantee to establish controls to ensure that all drawdowns are properly supported with documentation to show that eligible costs have been incurred.
- 1C. Instruct the grantee to submit its alternative cost allocation plan to HUD for review and approval.

SCOPE AND METHODOLOGY

Our review focused on the grantee's Supportive Housing Program. To accomplish our objectives, we reviewed the grant agreements, applicable HUD regulations, and regulatory guidance for the Supportive Housing Program. We reviewed annual progress reports submitted to HUD and the grantee's audited financial statements prepared by its independent public accountant. We performed an internal control review by applying limited testing over financial records and conducting interviews with grantee officials and HUD staff.

We initially performed a limited review of the supporting documents and disbursement of Supportive Housing Program funds for the period from March 1, 2000, through June 30, 2003. We later expanded our review period to extend through June 30, 2005.

We conducted our review from September 19 through November 30, 2005. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. .

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe the following item is a significant weakness:

- The grantee did not have an adequate system to ensure compliance with laws and regulations or to safeguard resources when \$94,759 in Supportive Housing Program funds were drawn down without adequate supporting documentation that costs had been incurred and when it did not obtain HUD approval for its alternative cost allocation plan (see Finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation number</u>	<u>Type of questioned costs</u>
1A	Unsupported costs <u>1/</u>
Total	<u>\$94,759</u>

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a 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.

Appendix B

The Allegations in the Complaint Could Not Be Substantiated

Allegation 1

The complaint indicated that the grantee did not have a detailed budget for the Supportive Housing Program (Project Home) that was operated by the company.

Evaluation - We noted that the grant agreement between the grantee and HUD included a budget that contained four categories: rehabilitation costs, supportive service costs, operating costs, and administrative costs. The budget also specified the eligible expenses for each category in accordance with Supportive Housing Program regulations. As a result, we concluded that this allegation was not valid.

Allegation 2

The complaint indicated that the grantee charged ineligible direct and other expenses to its program Project Home, such as salaries, benefits, supplies, travel, and food.

Evaluation - Based on our review of Supportive Housing Program fund drawdowns for supportive service costs and operating costs, no material deficiencies were noted. Staff salaries were in line with positions and wage amount as defined in the budget. Salaries and benefits were allocated to Project Home based on the staff's time contribution to that project. Other direct expenses such as supplies, travel, and food complied with the budget and regulations. Since these costs were incurred exclusively for Project Home, it is reasonable to consider them as direct supportive service costs or operating costs. As a result, we concluded that this allegation was not valid.

Allegation 3

The complaint indicated that the grantee allocated ineligible administrative costs to Project Home.

Evaluation - The shared administrative costs could be allocated to Project Home up to 5 percent of the total grant award. Our analysis disclosed that the reimbursed administrative costs were reasonable and within the budget. As a result, we concluded that this allegation was not valid.

Appendix C

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

**WomenRising, Inc.
2005 HUD Audit Response**

WomenRising, Inc. prides itself on the services provided to the community and the accurate reporting of that work. In spite of best efforts, there are times when usually strong internal controls may fail resulting from high turnover of critical positions or transactions not properly processed in accordance with policy and procedures. Though this does not excuse WomenRising from its contractual responsibilities, it is the basis for justifying an isolated breakdown in processing HUD drawdowns.

It is important to note that the staff that controlled processing of the drawdowns during the operating years audited is no longer employed by WomenRising. Consequently, efforts to resolve this matter are being spearheaded by a new Executive Director and Chief Financial Officer. Both individuals began employment just a little over three months ago and found the HUD audit already in progress. As a result, the agency was ill-prepared to respond to the concerns put forth by the auditors during the time of their fieldwork. Since then, the CFO has completed an analysis of the HUD project for the operating year ended June 30, 2005 (analysis of operating year June 30, 2004 to follow) and has concluded the following:

Comment 1

1. With the exception of the last 2 drawdowns, the procedures were applied consistently throughout the operating year.

2. The records show that the project incurred almost \$882,200 in expenses during the operating year. Based upon this analysis, it appears that there were significant expenses charged to matching funds that have been charged directly to HUD. To date, \$18,400 of unsupported expenses has been substantiated with documentation.

Comment 3

3. Review of the technical submission effective during the operating year did not include a HUD approved allocation methodology.

The following is the corrective plan currently in progress to adequately respond to the findings and recommendations of audit report:

Comment 2

1. Negotiate more time with HUD NJ Office of Community Planning and Development to compile supporting documents to substantiate the \$94,759 in unsupported drawdowns.

Comment 1

2. Policies and procedures have been revised ensuring that future drawdowns are properly supported with documentation that substantiates eligible costs before processing in LOCCS.

Comment 3

3. Submit WomenRising's allocation methodology for approval to HUD program manager, Richard Kotuski immediately.

WomenRising is confident that the internal controls already established and further enhanced with the implementation of the above plan will ensure appropriate and accurate reporting in the future. It is important that HUD remains confident that WomenRising, Inc. will continue to provide much needed services to the community and the agency is committed to timely and accurate reporting the results of that work.

OIG Evaluation of Auditee Comments

- Comment 1** Auditee officials agreed that the last two drawdowns of the operating year 2005 did not follow the procedures. They agreed to revise their policies and procedures to ensure that future drawdowns are properly supported with documentation.
- Comment 2** Auditee officials did not furnish any additional documentation regarding the \$94,759 of unsupported costs. They indicated that they would request additional time to compile the documentation to support the questioned amounts.
- Comment 3** Auditee officials agreed that they did not obtain HUD approval for their cost allocation methodology, and would immediately submit its cost allocation methodology to HUD.