



Issue Date July 19, 2006
Audit Report Number 2006-LA-1015

TO: William Vasquez, Director, Los Angeles Office of Community Planning and Development, 9DD

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

SUBJECT: Institute for Urban Research and Development, El Monte, California, Did Not Properly Administer Its Supportive Housing Program Grants

HIGHLIGHTS

What We Audited and Why

We audited the Institute for Urban Research and Development (Institute) in response to a referral from our Office of Investigations, which was prompted by a citizen's complaint. The complainant generally alleged that the Institute was misspending grant funds for unallowable or ineligible expenses.

The Institute received U.S. Department of Housing and Urban Development (HUD) Supportive Housing Program grant funds that were passed through the Los Angeles Homeless Services Authority and the City of Glendale and administered grant activities on behalf of these entities. Our audit objectives were to determine whether the complainant's allegations had merit and whether the Institute administered its Supportive Housing Program grants in accordance with HUD requirements, Office of Management and Budget requirements, and the grant agreements. More specifically, our objectives were to determine whether (1) grant expenditures were eligible and supported with adequate documentation and (2) the Institute complied with grant matching funds requirements.

What We Found

The complainant's allegations had merit, and the Institute did not adequately administer its Supportive Housing Program grants. We reviewed grant funds provided for four grants totaling nearly \$1.5 million and found that the Institute claimed to have spent \$108,853 in grant funds for allocated supportive housing and corporate office expenses that were not documented. In addition, the Institute could not provide support for \$181,020 in required matching funds for three of the grants.

What We Recommend

HUD awarded Supportive Housing Program grant funds to the Los Angeles Homeless Services Authority and City of Glendale. As pass-through entities, both provided Supportive Housing Program grant funds to the Institute to carry out eligible grant activities. The two grantees are responsible for compliance with the grant agreement and HUD requirements. Therefore, we recommend that HUD require the two grantees, Los Angeles Homeless Services Authority and the City of Glendale, to provide adequate supporting documentation or repay HUD the \$108,853 in unsupported expenses from nonfederal funds. We also recommend that HUD require the Los Angeles Homeless Services Authority and the City of Glendale to provide adequate documentation that \$181,020 in required matching funds was provided or repay the \$1,159,580 balance of grant funds expended from nonfederal funds.

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 provided the Institute and the two grantees (Los Angeles Homeless Services Authority and the City of Glendale) the draft report on June 5, 2006, and held an exit conference with officials from these entities on June 14, 2006. The Institute and the grantees generally agreed with our report.

The complete text of the response from the Institute and the two grantees, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Supportive Housing Program is authorized under Title IV of the McKinney-Vento Homeless Assistance Act (*United States Code* 11381-11389). The program is designed to promote the development of supportive housing and services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing for homeless persons to enable them 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 for homeless persons not provided in conjunction with supportive housing.

The Institute for Urban Research and Development (Institute) was established in 1996 as a nonprofit institution of the Episcopal Diocese of Los Angeles, primarily dedicated to assisting public and private organizations in responding to economic, social and housing needs of communities. The Institute has received more than \$3.5 million in funding from federal, state, county, and city sources since 2003. More than \$1.7 million of that came from U.S. Department of Housing and Urban Development (HUD) supportive housing funds, primarily through the City of Glendale and the Los Angeles Homeless Services Authority. These entities received funding from HUD and then contracted with the Institute to administer grant program activities. We reviewed the following grants administered by the Institute between 2003 and 2005:

Grantee	Grant name	Grant number	Grant term	Award
Los Angeles Homeless Services Authority	Outreach	CA16B200031	September 1, 2003 – August 31, 2005	\$400,709
Los Angeles Homeless Services Authority	Pathways	CA16B300024	December 1, 2004 – November 30, 2005	\$248,824
Los Angeles Homeless Services Authority	Access	CA16B300091	January 1 – December 31, 2005	\$333,929
City of Glendale	Glendale Consolidated Supportive Services	CA16B312010	September 1, 2004 – August 31, 2005	\$752,285
Total				\$1,735,747¹

When we started our audit in November 2005, the Institute stated that it planned to downsize its organization and spin off its supportive housing programs into a new organization. Later, it advised us that due to cash flow problems, it planned to cease its supportive housing program activities by March 31, 2006, and was in the process of returning the programs to its respective grantees. The Institute’s chief operating officer extended the closure date to June 30, 2006, because the Institute had identified new nonprofit organizations to take over the grant programs. The new organizations will be able to begin administering the programs on July 1, 2006. Our audit objective was to

¹ HUD disbursed \$1,596,505 of the total funds (\$1,735,747) awarded to the two grantees. The Institute received \$1,492,956 of the \$1,735,747.

determine whether the Institute administered its Supportive Housing Program grants in accordance with HUD requirements, Office of Management and Budget requirements, and the grant agreements. More specifically, our objectives were to determine whether (1) grant expenditures were eligible and supported with adequate documentation and (2) the Institute complied with grant matching funds requirements.

RESULTS OF AUDIT

Finding 1: The Institute Could Not Support the Eligible Use of \$108,853 in Grant Funding It Received

The Institute was unable to provide documentation to support the eligible use of \$108,853 of the nearly \$1.5 million in grant funds it received from the Los Angeles Homeless Services Authority and the City of Glendale. This amount included undocumented cost allocations made to the grants without valid supporting documentation. We attribute this unsupported use of grant funds to the Institute's failure to establish adequate financial record-keeping and implement an adequate internal control system that would ensure costs charged to the grants were appropriate, documented and properly accounted for. This was compounded by the failure of the Los Angeles Homeless Services Authority and the City of Glendale to provide adequate monitoring/oversight of the Institute's grant activities. The improper expenditures negatively impacted the Institute's ability to effectively manage its supportive housing program grants.

The Institute Paid \$108,853 for Unsupported Expenses

We reviewed claimed grant expenses totaling nearly \$1.5 million for the four grants in our audit scope and found that the Institute charged \$108,853 for supportive housing and corporate expenses that were allocated to the grants using rates with no documented basis or an approved indirect cost allocation rate (\$94,525) as required by Office of Management and Budget Circular A-122, attachment A, paragraphs A.2.g. and E.2.b² and for other expenses that were not adequately supported with invoices or documentation (\$14,328). Details are discussed separately below.

Allocated Expenses with Unsupported Allocation Rates \$94,525

The Institute charged \$94,525 in expenses to the four grants using various cost allocation rates but was unable to demonstrate the basis or the origin of the rates used. This amount was entirely composed of non-salary expenses such as utilities, telephone and maintenance expenses that were allocated to the grants using rates that were not documented and explained in the Institute's grant documentation. Allocation rates are normally associated with the indirect costs of an organization and require negotiation and approval by a cognizant federal agency as required by Office of Management and Budget Circular A-122, Attachment A, Paragraph E. Costs identified specifically to awards are direct

² A detailed listing of the criteria relevant to this audit is shown in appendix C.

costs and should be assigned directly thereto in accordance with Office of Management and Budget Circular A-122, attachment A, Paragraph B.1. Therefore, if costs are directly assigned to awards, no allocation rates should be necessary to distribute costs. A summary of these expenses is shown in the table below. A detailed expense breakdown is contained in appendix D.

Allocated Expenses by Grant		
CA16B300091	Access	\$ 34,609
CA16B200031	Outreach	38,698
CA16B300024	Pathways	1,802
CA16B312010	Glendale	19,416
Total		\$ 94,525

We asked the Los Angeles Homeless Services Authority to determine the origin of the allocation rates used by the Institute. The staff told us that since the Institute had no approved indirect costs under their grant agreements, it was not necessary for them to have a cost allocation plan or allocation rates. However, the Authority’s grant agreement with the Institute stated that a cost allocation plan must be provided prior to execution of the grant agreement. The City of Glendale also did not have documentation to support the rates. After our inquiries, the Institute prepared a draft allocation plan and submitted it to the City of Glendale for review. Since completion of our fieldwork, the City of Glendale also submitted cost allocation plans for our review. However, as previously stated, the plans did not exist when the grant expenses were initially charged. Since the Institute was not able to provide documentation to support the basis for the rates that were used to allocate costs to the grants, these expenses were unsupported.

Expenses without Adequate Invoices or Other Documentation (\$14,328)

The Los Angeles Homeless Services Authority and the City of Glendale disbursed \$1,492,956 in grant funding to the Institute. During audit fieldwork, we located Institute support totaling \$1,182,999. Later, the City of Glendale provided additional support totaling \$295,629. Therefore, \$1,478,628 of the \$1,492,956 disbursed to the Institute was supported. However, we could not locate support for the remaining \$14,328. The \$14,328 in unsupported expenses is associated with Los Angeles Homeless Services Authority grants (appendix E). Office of Management and Budget Circular A-122, attachment A, paragraph A, requires allowable costs to be adequately documented. A breakdown of the unsupported disbursements and unsupported allocations is shown in appendix E.

Lack of Monitoring and Internal Controls

The Los Angeles Homeless Services Authority and the City of Glendale did not provide adequate monitoring and oversight of the Institute’s grant activities. The

Los Angeles Homeless Services Authority stated that it had not performed any recent financial monitoring of the Institute. The City of Glendale performed financial monitoring and issued a finding in November 2005, stating that there was no documented basis for the Institute's cost allocation method. The city recommended that the Institute provide an explanation for its cost allocation procedures. However, the finding was made after the grant had expired and, although the Institute recently prepared a cost allocation plan, it was not established at the time costs were allocated to the grants. During our review, we found that many of the Institute's records were incomplete and that supporting invoice documentation was not always available when requested. OMB Circular A-110, Subpart C, requires that a grant recipient's financial management system adequately identify the source and application of funds for federally-sponsored activities.

The Institute's internal controls were also inadequate. Institute management stated that there was a period when the Institute did not have a chief financial officer, and as a result, the Institute's senior accountant became responsible for many of the Institute's accounting functions. Institute management acknowledged that the senior accountant had too many responsibilities and made numerous mistakes. Although not independently verified, we were also told by Institute management officials that their automated accounting system did not have controls to prevent prior months' accounting results from being altered. These internal control problems significantly impaired the Institute's ability to maintain an adequately functioning accounting system.

In addition, a management letter issued by the Institute's independent auditor stated that account reconciliations were not regularly performed, which should have prompted the Institute or the grantees to ensure that corrective action was taken.

Conclusion

The Institute could not support \$108,853 in claimed grant expenses due to poor financial recordkeeping and failure to implement an adequate internal control system to ensure appropriate charging of grant costs, accurate financial results, and that it maintained adequate records. In addition, the Los Angeles Homeless Services Authority and the City of Glendale did not provide adequate financial monitoring and oversight of the Institute's grant activities to ensure adequate financial records and strong internal controls. Consequently, these problems negatively impacted the Institute's ability to effectively manage nearly \$1.5 million in grant funds that it received.

Recommendations

We recommend that the director of the Los Angeles Office of Community Planning and Development

- 1A. Require the Los Angeles Homeless Services Authority to provide adequate supporting documentation for the \$89,437 in unsupported expenses (see appendix E), or repay it to HUD from nonfederal funds.
- 1B. Require the City of Glendale to provide adequate supporting documentation for the \$19,416 in unsupported expenses (see appendix E), or repay it to HUD from nonfederal funds.
- 1C. Require the Institute (or its replacement nonprofit organization(s)) to establish and implement cost allocation plans and approved indirect cost rates.
- 1D. Require the Institute (or its replacement nonprofit organization(s)) to establish and implement adequate controls over its financial operations and recordkeeping.
- 1E. Instruct the Los Angeles Homeless Services Authority and the City of Glendale to ensure that they have adequate monitoring procedures in place to ensure monitoring of their grant activities to identify problems in a more timely manner.

Finding 2: The Institute Could Not Document That It Provided \$181,020 in Required Matching Funds

The Institute's accounting records failed to support that it obtained \$181,020 in required matching funds for its Access, Outreach, and Glendale Consolidated Supportive Services grants³. This occurred because the Institute did not adequately consider the Office of Management and Budget requirements governing maintenance of accounting records and financial management systems to document its match funding. In addition, the Institute did not have adequate internal controls to ensure appropriate accounting for matching funds and disclosure of financial results. This negatively impacted the Institute's ability to properly manage the grant income for its supportive housing programs.

The Institute's Records Did Not Properly Identify Matching Funds

Office of Management and Budget Circular A-110, subpart C, requires that matching funds must be verifiable from the grant recipient's accounting records.

The Institute's accounting records did not always segregate match funding from other sources of income. For example, the annual progress report for the Glendale Consolidated Supportive Services grant stated that the Institute expended \$111,287 in matching funds during the grant period September 2004 to August 2005. However, only \$54,345 of this amount was identified in the Institute's accounting ledgers' match cost center. The remaining amount of \$56,942 could not be accounted for because it was commingled in cost centers that also contained ordinary grant income.

In the case of the Access and Outreach grants, the annual progress reports stated that the Institute expended \$56,513 and \$47,703 (second year of grant) in match funding, respectively. However, these amounts were not supported in the accounting ledgers because the match cost center, for which documentation was provided, commingled the funds for both grants.

³ The required matching funds were provided for its Pathways grant.

The Institute Did Not Provide Adequate Source Documentation for the Matching Funds

Office of Management and Budget Circular A-110, subpart C, requires a grant recipient's financial records to identify the source and application of funds for federally sponsored activities and that accounting records be supported by source documentation.

The Institute's source documentation did not support match funding amounts identified in annual progress reports and accounting ledgers. The Institute provided copies of checks received as reimbursement from the City of El Monte in support of its claim that it had obtained the required match funding for the Access and Outreach grants. However, the checks were not identifiable to either the Access or Outreach grants and, more importantly, it was not clear which grants the checks applied to based on information from the accounting ledgers. Therefore, the match for these grants was not verifiable.

In addition, not all of the \$111,287 identified in the annual progress report as cash match for the Glendale Consolidated Supportive Services grant was supported by source documentation. The Institute provided \$34,483 in checks and provided copies of its contract with the Glendale Unified School District and a Glendale redevelopment contract to demonstrate that it met the remaining match amount of \$76,804. However, this documentation does not specify whether match funding was actually received for the Glendale Consolidated Supportive Services grant nor does it specify the amount. A breakdown of the unsupported cash matching funds by grant is shown in appendix F.

Conclusion

The Institute did not adequately consider the Office of Management and Budget requirements governing maintenance of accounting records and financial management systems to document its match funding and did not have adequate internal controls to ensure appropriate accounting of matching funds. In addition, as discussed in finding 1, insufficient financial monitoring by Los Angeles Homeless Services Authority and the City of Glendale failed to identify this problem with the Institute's matching funds in a timely manner. The failure to properly account for the required matching funds negatively impacted the Institute's ability to manage its grant income. Therefore, we question the balance of grant funds expended for the three grants, and recommend that they be repaid unless adequate supporting documentation can be provided.

Recommendations

We recommend that the director of the Los Angeles Office of Community Planning and Development require the

- 2A. City of Glendale to provide adequate documentation that the \$76,804 in required matching funds was provided (see appendix F), or repay the \$574,038 balance of the grant funds expended for the Glendale Consolidated Supportive Services grant from nonfederal funds.
- 2B. Los Angeles Homeless Services Authority to provide adequate documentation that the \$104,216 in required matching funds was provided (see appendix F), or repay the \$585,542 for the balance of grant funds expended for the Outreach and Access grants from nonfederal funds.
- 2C. Institute (or its replacement nonprofit organizations(s)) to establish and implement adequate controls to ensure that grant matching funds are appropriately tracked in the accounting system and that adequate supporting source documentation is maintained.

SCOPE AND METHODOLOGY

We performed audit work from November 2005 through March 2006. The audit generally covered the period September 2003 through December 2005. We reviewed guidance applicable to Supportive Housing Program grants and interviewed staff from the City of Glendale, Los Angeles Homeless Services Authority, and the Institute. We also consulted with staff from the Los Angeles Office of Community Planning and Development.

To accomplish our audit objectives, we

- Reviewed and obtained an understanding of the referral and complaint allegations contained in a letter forwarded by the Office of Investigations. We audited the complaint allegations to determine whether they had merit.
- Reviewed applicable HUD regulations, including 24 CFR [*Code of Federal Regulations*] Parts 84 and 583 and Office of Management and Budget Circulars A-110 and A-122.
- Interviewed personnel from the HUD Office of Community Planning and Development to obtain grant files for the City of Glendale and the Los Angeles Homeless Services Authority.
- Interviewed personnel from the City of Glendale and the Los Angeles Homeless Services Authority.
- Reviewed the grant recipient's policies, procedures and practices and interviewed key personnel from the Institute.
- Reviewed independent public accountant reports and available monitoring reports from the cities.
- Reviewed accounting ledgers, vendor files, grant agreements and technical submissions. We also reviewed \$1,492,956 in grant expenditures to determine whether there was adequate documentation to support the Institute's billings to the cities. The documentation reviewed included invoices, timesheets and cost allocations.
- Nonstatistically selected the one City of Glendale Consolidated Supportive Services grant and three Los Angeles Homeless Services Authority grants because we noted that the largest amount of questionable expenses reviewed during our survey came from grants administered by those cities.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is 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 the following internal controls were relevant to our audit objectives:

- Policies and procedures that management has implemented to ensure accurate, current, and complete disclosure of financial results.
- Policies and procedures that management has implemented to reasonably ensure that its Supportive Housing Program grants are carried out in accordance with applicable laws and regulations.

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 items are significant weaknesses:

The Institute did not have

- Policies and procedures to ensure accurate, current and complete disclosure of financial results (findings 1 and 2).
- Policies and procedures to ensure that Supportive Housing Program grants were carried out in accordance with applicable laws and regulations (findings 1 and 2).

APPENDIXES

Appendix A

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

Recommendation number	Unsupported <u>1/</u>
1A	\$89,437
1B	19,416
2A	574,038
2B	585,542
Total	\$1,268,433

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 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

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 1

Comment 2

Comment 3



Robin Conerly
Interim Executive Director

Board of Commissioners

Owen Newcomer
Chair

Rebecca Avila
Vice-Chair

Larry Adamson

Veronica Brooks

Howard Katz

Estela Lopez

Douglas Mirell

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June 21, 2006

Ms. Joan Hobbs
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U.S. Department of Housing and
Urban Development
Office of Inspector General
611 W. 6th Street, Suite 1160
Los Angeles, California 90017-3101

Re: OIG Draft Report – Institute for Urban Research and Development

Dear Ms. Hobbs:

The Los Angeles Homeless Services Authority appreciates the assistance and consideration you and your staff have provided with respect to your office's audit of the Institute for Urban Research and Development. This letter is our response to the audit findings, and our notes on the attached response as submitted by our contractor, the Institute for Urban Research and Development.

Finding 1: The Institute could not support the eligible use of \$108,853 in Grant Funding it received.

LAHSA Response:

We have reviewed the response provided by the Institute of Urban Research and Development relative to the \$94,525 in unsupported costs due to the failure of IURD to substantiate cost allocation bases at the time of the field audit. Of the total amount, \$75,109 is related to LAHSA administered contracts.

1. We have reviewed the cost allocation methodology provided by the Institute and the underlying statistics. Based on our review, the allocation methodology and the statistics utilized represent reasonable bases for the distribution of shared costs for the Access and Outreach Programs. These bases have been utilized consistently by the IURD in their monthly invoicing.
2. The use of accumulated cost as proposed by the Institute for distribution of general and administrative expenditures is a reasonable basis for the distribution of those costs based on the number of programs administered by the Institute during the periods under audit.
3. We have reviewed the schedule provided by IURD related to the Expenses without Adequate Invoices or Other documentation (\$14,328). The schedule provided by IURD is in agreement with the invoices submitted and on record at LAHSA's offices. We can also provide copies of any documentation required by either the OIG auditor or the HUD Field Office to resolve this issue.
4. LAHSA has requested significant additional funding from both the City of Los Angeles and the County of Los Angeles to support the ability of the Authority to conduct timely and effective monitoring visits to all providers. In addition, LAHSA has spent significant time at the IURD El Monte site conducting a monitoring visit and reviewing documentation. LAHSA plans on conducting significant number of monitoring visits over the next twelve-month period.

Ms. Joan Hobbs
Page 2
June 21, 2006

Comment 4

Finding 2: The Institute Could Not Document That It Provided \$181,020 in Required Matching Funds.

LAHSA Response:

LAHSA relied, in part, on the Institute's independent certified public accountant in assuring compliance with Circulars A-110 and A-133. As a result, LAHSA did not independently verify that all Cash Match amounts were properly recorded in the IURD's general ledger. In the period subsequent to notification by the OIG that its auditor's had identified potential problems, LAHSA has determined that the IURD did receive significant unrestricted donations that were utilized to meet cash match requirements; however, we also noted that the IURD did not classify the funds as being utilized as cash match in their general ledger.

We believe the response provided by the Institute is appropriate for the resolution of the Cash Match finding, and will provide the results of their review and reconciliations to you upon their completion.

We agree that the IURD incorrectly combined expenditures for the Access Program and Street Outreach Program, and the related Cash Match funding received and applied to the expenditures. Again, we believe the activities currently being conducted by the IURD to properly separate the costs and funds received into two separate cost centers will result in compliance with federal guidelines.

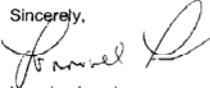
Documentation to support compliance with the federal guidelines will be submitted to LAHSA by June 30, 2006 by IURD, and LAHSA will provide its analysis and findings to the OIG Audit division and the HUD Field Office upon completion of its review.

Attached is the Institute for Urban Research and Development's response and accompanying Exhibits to the Draft Audit Report.

We look forward to working with your office and the HUD Field Office to successfully resolve the findings noted in the report.

If you have any questions, please do not hesitate to contact me directly at 213-225-2572.

Sincerely,



Lorraine Lynch
Deputy Director and Chief Financial Officer

Attachments

Cc: Larry Adamson
Robin Conerly
Lari Sheehan
Terri Kasman



**The Institute for
Urban Research and Development**

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June 21, 2006

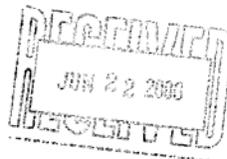
Ms. Lorraine Lynch
Chief Financial Officer
Los Angeles Homeless Services Authority
453 S. Spring Street, 12th Floor
Los Angeles, CA 90013

Dear Ms. Lynch:

Enclose is IURD's written response to the recent HUD OIG Draft Audit Report dated June 5, 2006. If you have any questions or need any additional information please call either myself at (213) 482-9302 or Tom Popplewell at (626) 448-1901 Ext 106.

Sincerely,

Joe Colletti
Executive Director



IURD - "Community-based solutions that work!"

Finding 1: The Institute could not support the eligible use of 108,853 in Grant Funding it received.

Institute Response:

We have separated the \$108,853 in "unsupported costs" into categories that better define our understanding of why the costs have been disallowed, and provided our comments and supporting documentation for each category.

Comment 5

1. The auditor's findings indicate that \$94,525 in costs were found to be 'unsupported' because the expenditures benefit multiple programs and, at the time of the audit, the Institute was unable to locate the supporting documentation for the bases utilized to distribute the costs to the various programs receiving benefits of the expenditures.
 - a. Circular A-122 provides that a cost is allocable to a particular contract in accordance with the relative benefits received.

The Access Program, CA16B300091, and the Outreach Program, CA16B200031 share a building in El Monte, California. Some expenses are directly 100% assignable to the program. Other expenditures related to space and office supplies and telephone are shared costs and must be distributed to the two programs in compliance with Circular A-122 guidelines.

- i. Expenses related to rent, utilities, maintenance and the like were distributed to the two programs based on an allocation rate of 75% distributed to the Access Program and 25% distributed to the Street Outreach Program. The Institute has had significant staff turnover in the accounting areas since the inception of the programs, and the Chief Operating Officer had only been with the program a short period at the time the audit by the OIG was initiated. As a result, the Institute was uncertain how the distribution of these costs was determined resulting in the auditor disallowing the costs. Subsequent to the OIG auditor leaving the field, the Institute identified the basis of the distribution of these types of expenditures as the square feet utilized by staff utilized by each program, excluding common areas, and believes that this basis fairly distributes the costs in accordance with the relative benefits received.

A copy of the building, the assignment of space, and a summary of space utilization by each program is identified, supporting the distribution of space-related costs utilizing the 75% - 25% allocation bases is attached as Exhibit 1 and Exhibit 1-1.

- ii. Non-space related costs were distributed between the two programs based on an allocation bases of 55.6% Access Program and 44.4% Street Outreach Program. Again, at the time of the auditor's fieldwork, the Institute was not able to provide the auditor with the rationale or statistics that supported the distribution of shared costs to these two programs. Subsequent to the auditor leaving the field, the Institute located the statistics supporting the distribution of costs between the two programs. Program staff headcount was the basis utilized to distribute general direct program expenses including telephone, office supplies, postage and delivery and the like, and results in the distribution of costs to the contracts in accordance with the relative benefits received.

A schedule detailing the headcount by program, and the computation of the 55.6% and 44.4% allocation of expenses is attached as Exhibit 2.

- iii. Additionally, the Institute incurs certain expenses that are deemed administrative expenses that apply to all programs administered by IURD. The Institute has elected to use accumulated cost as the allocation basis for administrative costs allocated to the programs. During the program year, the Institute utilized estimated costs on a month by month basis. At the conclusion of the fiscal year, the Institute finalizes its

administrative cost ratio based on actual accumulated costs by program, and prepares a reclassifying entry to adjust the monthly entries to the actual accumulated cost by program.

A schedule detailing accumulated cost by program, and the resulting allocation ratio for administrative costs is attached as Exhibit 3. The supporting details from our general ledger are attached as Exhibit 3-1

It is the Institute's position that these statistical bases meet the criteria of Circular A-122 for the distribution of costs, and that these costs should be deemed supported and allowable under their respective contracts.

- b. The OIG auditor identified differences between the amount of funds drawn from the SNAP grant detail query and the amounts invoiced and paid noting a net difference of \$14,328.

The Institute has worked with LAHSA to prepare a reconciliation between invoiced expenditures and amounts received from the program.

Contract Name and No.	Invoiced Amount (with 100% source documentation)	Paid Amount	Net Unsupported
Access CA16B300091	\$291,283.74	\$291,283.00	\$(0.74)
Outreach CA16B200031	400,335.40	400,339.00	3.60
Pathways CA16B300024	226,718.75	227,718.00	(0.74)
Totals	\$918,337.89	\$918,340.00	\$2.11

Exhibit 4-1 provides a detail by contract of the invoices submitted to LAHSA, accompanied with 100% source documentation, and the cash payments received by the Institute for the respective contracts and contract periods. We can provide copies of any invoice periods needed to resolve this finding.

- c. The Institute acknowledges that it did go through an extended period where it did not have a Chief Financial Officer; however, we did continue to process vendor invoices and account for expenditures appropriately. Understanding that there were weaknesses in the Institute's business functions, the Board of Directors, working through its Executive Director, took several distinct steps to improve the fiscal integrity of the Institute's business systems. In December 2004, a Chief Operating Officer was hired to oversee the fiscal operations of the Institute. In early 2005, an accounts payable function was established to ensure that payments were processed accurately, and in a timely manner. In the fall of 2005, a highly qualified general ledger accountant was hired to improve the day-to-day business functions of the Institute, and to enhance internal control over the general ledger. In essence, the entire business staff has been replaced over the last year.

Additional internal controls have also been implemented. Segregation of duties and additional layers of invoice approval have been implemented to ensure that expenditures are properly recorded in the general ledger. These changes have significantly improved the integrity of the accounting functions, and resulted in a significant reduction in accounting errors.

The Institute has also taken steps to ensure the accounting for cash match funds for all current SHP grants meets the criteria specified by the OIG Auditor and Circulars A-133 and A-110, and the Institute maintains permanent files that provide for the immediate retrieval of all allocation bases for distributed costs.

Comment 2

Comment 6

Comment 7

In conjunction with the financial audit for period ending June 30, 2005, the Agency's independent accountant noted a few deficiencies with internal controls. To address the issues raised the Institute contracted with a human resources firm in the fall of 2005 to manage the day-to-day human resources function of the agency. This firm has made many improvements to the administration of human resources. We currently have a separate file of Form I-9's for all current and terminated employees. Additionally, with the enhancement of the human resources function, the human resources staff approves all additions and deletions of employees thereby adding an additional layer of control. The Board of Directors has approved all check signers with a formal board resolution, and the signature card with the bank is updated on regular basis. As noted above, with the hiring of a general ledger accountant and the establishment of an accounts payable department, the segregation of duties issue has been significantly mitigated.

Comment 8

Finding 2: The Institute Could Not Document That It Provided \$181,020 in Required Matching Funds.

1. The auditor determined that the method that the IURD utilized for recording matching funds was not in accordance with Circular A-133 requirements.

Institute Response:

The Institute acknowledges that, while it has documented significant non-HUD cash receipts utilized in meeting the cash match requirements in our general ledger, it appears we did not post the cash receipts in a manner acceptable to the OIG auditor. However, the Institute wishes to point out that it did meet A-133 criteria in the opinion of its external financial auditor (see copy of the A-133 Audit opinion – Exhibit 5). The Institute is currently conducting a comprehensive review of the posting of its cash receipts and is in the process of correcting the posting to comply with the auditor's findings.

2. The auditor also determined that the Institute combined Access Program and Outreach Program expenditures into one cost center, thereby not clearly identifying the expenditures and related cash match amounts relative to each program.

The Institute is in the process of reviewing each transaction in the combined cost center and is reclassifying cash receipts and expenditures related to the Access Program and the Outreach Program to separate cost centers in response to this finding. The Institute expects to have this work complete by June 30, 2006, and will provide the OIG Audit Division and the HUD field office the results of this work.

3. The auditor determined that the Institute's source documentation did not support the matching funding amounts identified in the annual progress reports and accounting ledgers.

The Institute, as part of its work in response to the auditor's findings is in the process of reviewing each cash receipt, and when appropriate, reclassifying the receipt to the program and/or contract for which the cash receipt relates to. The review of each cash receipt is expected to be completed by June 30, 2006, and the supporting documentation will be provided to the OIG Audit Division and the HUD field office at that time.

4. The auditor noted that a portion of the \$111,287 identified in the annual progress report as cash match funding for the Glendale Consolidated Supportive Services grant was not supported by source documentation.

The Institute is conducting a similar review of supporting documents for the Glendale program and will reclassify cash receipts and expenditures related to the Glendale programs in separate cost centers in response to the finding. The review of each cash receipt is expected to be completed by June 30, 2006.



CITY OF GLENDALE, CALIFORNIA
Department of Community Development and Housing

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June 21, 2006

Ms. Joan S. Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General Region IX
611 West Sixth Street, Suite 1160
Los Angeles, California 90017-3101

Subject: Draft Audit Report-CA16B312-010 Glendale Supportive Housing Program
Institute for Urban Research and Development

In November, 2005, the Office of the Inspector General (OIG) began an audit of IURD, which included the City of Glendale's FY 04-05 Supportive Housing Program (SHP) Grant Number CA16B312-010.

In January, 2006, OIG visited the Glendale Office of Community Development and Housing for approximately four hours, met with staff and reviewed documents. On April 20, 2006, the City received a faxed copy of OIG's Finding Outline report of IURD, which identified three findings. Since then, Glendale was able to provide adequate support documentation to OIG to clear one of the findings. On June 5, 2006 OIG issued its Draft Audit Report, which identified two findings. On June 14, 2006, an exit interview was conducted, which the City found to be very productive and encouraging in terms of clarifying issues, determining and agreeing with what would be required to address the two remaining findings.

Listed below are the OIG findings and the City of Glendale's response.

Finding 1: The Institute could not support the eligible use of \$108,853 in Grant Funding it received.

City Response: Of the amount identified in the finding, only \$19,416 relates to the City of Glendale contract. The City acknowledges that at the time OIG conducted the audit there was inadequate documentation provided to support allocation rates used for indirect costs. Both, the City of Glendale and IURD have had significant staff turnover. As a result, there was uncertainty how the distribution of these costs was determined.

Comment 9

Comment 10



However, subsequent to the OIG auditor leaving the field, IURD and the City have identified the basis of the distribution of these types of expenditures as the square feet utilized by staff utilized by each program, excluding common areas, and believe that this basis fairly distributes the costs in accordance with the relative benefits received.

The size and scope of the City's programs did not change in the last two years. The City is confident that with the submission of a schedule detailing the headcount by program, diagrams, calculations and formulas, HUD will find that allocation rates that were used were supported.

OIG's Recommendations: In the meantime, the City agrees with the recommendations to: 1) require the replacement non-profit sponsor, People Assisting the Homeless (PATH), to establish and implement cost allocation plans and approved indirect cost rates; 2) require the replacement non-profit sponsor to establish and implement adequate controls over its financial operations and recordkeeping; and 3) instruct the City to ensure that it has adequate monitoring procedures in place to ensure monitoring of its grant activities to identify problems in a more timely manner.

In view of this, the City is in the process of scheduling a financial monitoring of PATH to ensure an adequate accounting system is in place and review the cost allocation plan.

Finding 2: IURD could not support that it provided \$111,287 in required matching funds for the City of Glendale SSO grant for the grant period September, 2004 to August, 2005 and did not have adequate internal controls to ensure appropriate accounting for matching funds and disclosure of financial results.

City Response: The City acknowledges that at the time OIG conducted its audit; matching funds could not be adequately verified because the funding sources were not segregated and traceable to a Glendale cost center. IURD identified several sources of matching funds, but they could not be verified. Of the City's requirement of \$111,287, only \$34,483 was verified, leaving an unverified balance of \$76,804.

IURD acknowledges that, while it has documented significant non-HUD cash receipts utilized in meeting the cash match requirements in its general ledger, it appears it did not post the cash receipts in a manner to satisfy the OIG auditors and Circular A-110. In response, IURD is currently conducting a comprehensive review of the posting of its cash receipts and is in the process of correcting the posting to comply with the auditor's findings. IURD is in the process of reviewing each transaction in the combined cost center and is reclassifying cash receipts and expenditures related to the different programs and contracts. IURD expects to have this work completed and submitted for consideration to OIG and HUD by June 30, 2006.

In addition, since the Draft Audit Report was received, the City has also identified and can verify additional matching sources from the City, such as CDBG and redevelopment funds, which will be submitted for consideration to OIG and HUD.

OIG's Recommendations: In the meantime, the City agrees with the recommendation that the City's replacement non-profit sponsor, People Assisting the Homeless (PATH), establish and implement adequate controls to ensure that grant matching funds are appropriately tracked in the accounting system and that adequate supporting source documentation is maintained.

Sincerely,



Jess Duran

Cc: William Vasquez, Director, Office of Community Planning and Development, 9DD
Tanya Schulze, Assistant Regional Inspector General
Cynthia Blatt, CPD Representative

OIG Evaluation of Auditee Comments

- Comment 1** The reasonableness of the Institute's cost allocations to the Access and Outreach grants that were effective between September 2003 and December 2005 was not an issue that was addressed in our audit. Rather, at the time of our audit, there was no documentation showing the basis for the allocations made to the grants. We performed extensive fieldwork and made numerous contacts with staff from the Institute, the City of Glendale and the Los Angeles Homeless Services Authority. We were told either that no allocation plans existed or were given documentation that did not support the allocation rates used by the Institute to allocate costs to the grants. Therefore, we disagree that the allocation basis recently provided have been utilized consistently by the Institute in its monthly invoicing.
- Comment 2** At the time of our audit there was no documentation to support the \$14,328. If there is now supporting documentation, it can be provided to HUD during the audit resolution process.
- Comment 3** We acknowledge that the Los Angeles Homeless Services Authority is taking action to ensure that it conducts timely and effective monitoring of its nonprofit providers in the future. The HUD office can review the adequacy of the new procedures during the audit resolution process to ensure that the non-profit sponsors comply with the Supportive Housing Program requirements.
- Comment 4** Grantees are responsible for compliance with the Supportive Housing Program grant requirements, regardless of whether the grantee administers the grant program directly, or passes the grant funds through to a non-profit organization. During our audit, the Los Angeles Homeless Services Authority told us it had conducted program monitoring of the Institute; however, no recent financial monitoring had been performed. The Los Angeles Homeless Services Authority's inadequate financial monitoring significantly contributed to the Institute's failure to maintain its accounting records in accordance with the requirements of Office of Management and Budget Circular A-110. If the Institute now has records to document that the matching funds requirements were met, it can provide them to HUD during the audit resolution process.
- Comment 5** The Institute acknowledged at the exit conference and in its written response that at the time of the audit it was unable to locate the supporting documentation for the basis used to distribute costs to the various programs. We want to point out that our conclusion that the \$94,525 in allocated costs were unsupported was not based solely on audit fieldwork performed at the Institute. During our audit we also spoke with staff members at the Los Angeles Homeless Services Authority in an attempt to determine the basis for the various percentages that were used to allocate costs to the grants. In more than one instance, no explanation was given for the percentages and we were told that it was not necessary for the Institute to

have cost allocation plans because they had no approved indirect cost items and that all costs were charged directly to the grants. We also spoke with staff members at the City of Glendale to determine the basis for the Institute's allocations to the Glendale Consolidated grant, but the city did not have documentation to support the various rates. Based on the results of all fieldwork performed in this area, we concluded that the Institute did not have a documented basis (as required by Office of Management and Budget Circular A-122) to support the grant costs. We acknowledge the cost allocation plans have recently been provided; however, this was subsequent to our audit fieldwork. Further, based on the foregoing, we must conclude that the plans were only recently prepared, in response to our audit, and that the costs allocated to the grants during their effective terms were not supported as required. The new cost allocation plans may be implemented after receiving the necessary reviews and approvals by the cognizant federal agency (HUD).

Comment 6 We agree that changes to the Institute's finance/accounting staff have been made since December 2004. However, the Institute's accounting and financial record keeping for the grants periods that we reviewed was inadequate and grant documentation was incomplete. Further, if invoices were accurately processed, we attribute this to the City of Glendale's and the Los Angeles Homeless Service Authority's controls over invoice review, not the Institute's. Initially, we could not obtain invoice documentation for review because the invoices and related back-up was not adequately maintained. We attribute this to a lack of controls over financial recordkeeping. This resulted in additional audit fieldwork at the City of Glendale and the Los Angeles Homeless Services Authority in an attempt to obtain the information.

Comment 7 We applaud the Institute for taking action to implement corrective actions based on our findings to strengthen its internal controls and accounting procedures. Since these actions took place after our audit fieldwork, we have not reviewed the adequacy of these actions, and thus, have no further comment. The revised procedures and practices can be reviewed by HUD during the audit resolution process.

Comment 8 Our finding stated that the Institute was not in compliance with the requirements of Office and Management and Budget Circular A-110, not A-133. Circular A-110 states that match contributions must be verifiable from the recipient's records and that accounting records must be supported with source documentation. Since the Institute agreed with the finding and is now taking action to correct the problem, we have no further comment.

Comment 9 We identified only two findings in the finding outlines and discussion draft report. However, after additional documentation was provided by the City of Glendale subsequent to audit fieldwork, we did eliminate one portion of Finding 1, which originally stated that we could not locate adequate invoice support at the Institute for the Glendale Consolidated invoices.

Comment 10 The City of Glendale agreed with the finding and acknowledged that at the time of the audit, there was inadequate documentation provided to support allocation rates used for indirect costs. Since the City of Glendale is now working with the Institute to address the deficiencies and attempt to determine the basis for the costs charged, we have no further comment on the issue.

Appendix C

CRITERIA

- A. **Regulations at 24 CFR [Code of Federal Regulations] Part 583, Subpart B**, state that HUD will provide grants to pay for the actual costs of supportive housing or supportive services. HUD will also pay for the actual costs of supportive services for homeless persons and a portion of actual operating expenses for supportive housing. All expenses will be paid up to a period of five years.
- B. **Office of Management and Budget Circular A-122, Purpose**, states that the circular establishes principles for determining costs of grants, contracts, and other agreements with nonprofit organizations.
- C. **Office of Management and Budget Circular A-122, Applicability, paragraph A**, states that circular principles shall be used by all federal agencies in determining the costs of work performed by nonprofit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement.
- D. **Office of Management and Budget Circular A-122, Applicability, paragraph B**, states that all cost reimbursement subawards (subgrants, subcontracts, etc.) are subject to those federal cost principles applicable to the particular organization concerned. Thus, if a subaward is made to nonprofit organization, the circular principles shall apply.
- E. **Office of Management and Budget Circular A-122, attachment A, paragraph A, subparagraph A2g**, requires that allowable costs be adequately documented.
- F. **Office of Management and Budget Circular A-122, attachment A, paragraph E, subparagraph 2b**, states that a nonprofit organization that 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.
- G. **Office of Management and Budget Circular A-122, attachment A, paragraph B, subparagraph 1**, states that direct costs are those that can be identified specifically with a particular award, project, service, or other direct activity of an organization. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto.
- H. **Office of Management and Budget Circular A-122, attachment A, paragraph C, subparagraph 1**, states that indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

- I. **Office of Management and Budget Circular A-122, attachment A, paragraph E, subparagraph 2a**, requires that the Federal agency with the largest dollar value of awards with an organization be designated as the cognizant agency for the negotiation and approval of indirect cost rates.

- J. **Office of Management and Budget Circular A-122, attachment A, paragraph E, Subparagraph 2g**, requires the results of each negotiation to be formalized in a written agreement between the cognizant agency and the non-profit organization.

Appendix D

SUMMARY OF UNSUPPORTED ALLOCATED EXPENSES

	Access	Outreach	Pathways	Glendale Consolidated Supportive Services	
Expense Type	CA16B300091	CA16B200031	CA16B300024	CA16B312010	Total
Utilities (gas, water and electric)	10,577	6,965	2	1,753	19,297
Telephone	8,692	9,780	74	2,426	20,972
Maintenance and repairs	8,641	5,230		1,355	15,226
Insurance	2,897	7,586		4,798	15,281
Leasing				7,589	7,589
Office supplies	631	3,120	60	285	4,096
Copier rental, services, supplies	742	610	2	980	2,334
Client website, computer maintenance, etcetera	1,597	657	124	147	2,525
Printing/postage	511	719	12		1,242
Security	28	3,242	358	15	3,643
Resource directory			860		860
Vehicle gas and mileage		203			203
Cell phones		82	80		161
Business loans		108	33		141
Equipment and furnishings	126				126
Job announcement			110		110
Food, water, etcetera...		102			102
Wells Fargo card charges		9	87		96
Periodical	87				87
Property taxes	41	33			74
Cell phones				68	68
Employee screening services		60			60
Food, water, etcetera		53			53
Checks		50			50
Express mail		47			47
Equipment and furnishings	36				36
Advertising/marketing		17			17
Business license fees		13	0		13
Petty cash		8			8
Delivery service		4			4
Mileage	3				3
Total allocated expenses	34,609	38,698	1,802	19,416	94,525

Appendix E

SCHEDULE OF UNSUPPORTED ALLOCATIONS AND DISBURSEMENTS

Grant number	Amount disbursed by HUD	Less: City of Glendale allocation	Adjusted disbursements	Amount supported by Institute	Amount supported by Glendale	Amount unsupported	Unsupported allocations	Total unsupported
Los Angeles Homeless Services Authority								
CA16B300091	\$ 272,449		\$ 272,449	\$ 295,058		\$ (22,609)	\$ 34,609	\$ 12,000
CA16B200031	400,335		400,335	363,791		\$ 36,544	38,698	\$ 75,242
CA16B300024	226,718		226,718	226,325		\$ 393	1,802	\$ 2,195
Subtotal - Los Angeles Homeless Services Authority	\$ 899,502	\$	\$ 899,502	\$ 885,174		\$ 14,328	\$ 75,109	\$ 89,437
City of Glendale								
CA16B312010	697,003	103,549	593,454	297,825	295,629	0	19,416	\$ 19,416
Subtotal - Glendale Consolidated Supportive Services	\$ 697,003	\$ 103,549	\$ 593,454	\$ 297,825	\$ 295,629	0	\$ 19,416	\$ 19,416
Totals	\$ 1,596,505	\$ 103,549	\$ 1,492,956	\$ 1,182,999	\$ 295,629	\$ 14,328	\$ 94,525	\$ 108,853

Appendix F

SCHEDULE OF UNSUPPORTED MATCHING FUNDS

Grant number	Grant name	Grant period	Match per annual progress report	Verifiable match amount	Unverified match
Los Angeles Homeless Services Authority					
CA16B200031	Outreach	September 1, 2003 – August 31, 2005	\$ 56,513	\$ -	\$ 56,513
CA16B300091	Access	January 1 - December 31, 2005	47,703	-	\$ 47,703
Subtotal Los Angeles Homeless Services Authority			104,216	0	104,216
City of Glendale					
CA16B312010	Consolidated Supportive Services Only	September 1, 2004 – August 31, 2005	111,287	34,483	76,804
Subtotal Glendale Consolidated Supportive Services			111,287	34,483	76,804
Totals			\$ 215,503	\$ 34,483	\$ 181,020

Appendix G

SCHEDULE OF NET UNSUPPORTED CASH MATCH EXPENSE

Grant number	Grant name	Grant period	Grant amount disbursed	Less: unsupported allocations (appendix D)	Less: unsupported disbursements (appendix E)	Net unsupported cash match
Los Angeles Homeless Services Authority						
CA16B200031	Outreach	September 1, 2003 – August 31, 2005	\$400,335	\$ 38,698	\$36,544	\$325,093
CA16B300091	Access	January 1– December 31, 2005	272,449	34,609	(22,609)	\$260,449
Subtotal			\$ 672,784	\$ 73,307	\$13,935	\$585,542
City of Glendale						
CA16B312010	Consolidated Supportive Services	September 1, 2004 – August 31, 2005	\$ 593,454	\$ 19,416	0	\$574,038
Subtotal Glendale Consolidated Supportive Services			\$ 593,454	\$ 19,416	0	\$574,038
Totals			\$ 1,266,238	\$ 92,723	\$13,935	\$1,159,580