



U.S. Department of Housing and Urban Development
Capitol District
Office of Inspector General for Audit
451 Seventh Street, S.W. Room 3154
Washington D.C. 20410-7000

December 17, 1996

Audit Related Memorandum
No. 97-AO-251-1801

MEMORANDUM FOR: Fred Karnas, Acting Director for the Interagency Council for the Prevention of Homelessness [DEO]

FROM: David J. Niemiec, District Inspector General, Capital District, 3GGA

SUBJECT: Hotline Complaint — Community for Creative Non-Violence

This memorandum provides you the results of our review of the use of funds by the Community for Creative Non-Violence (CCNV) under a subgrant from the Community Partnership for the Prevention of Homelessness (Community Partnership). The review was performed in response to a hotline complaint.

The objective for which the grant funds had been awarded — development and implementation of a computerized case management system — had not been accomplished and only about \$223,550 of the \$630,421 received from HUD under the grant agreement was spent on case management related expenses. The remaining funds, about \$406,871, were spent on items that were either not allowable or could not be determined to be allowable under the terms of the grant agreement due to a lack of supporting documentation. We asked the CCNV Vice President on numerous occasions to provide documentation to support the questioned items but the information was not provided. We therefore find it necessary to disallow the expenditures of \$406,871 and recommend termination of the current grant agreement.

On November 20, 1996, in response to our draft report, you provided written comments indicating agreement with our proposed recommendations. We have included your response in its entirety as Appendix B to this report.

Background

In May, 1994, HUD negotiated a memorandum of understanding with the District of Columbia to transition its homeless care system from a shelter-based system to a continuum of care system. In accordance with the terms of the understanding, the District was to provide shelter and services for both the homeless and those at risk of becoming homeless. HUD agreed to provide \$20 million over a 3-year period to fund the effort, known as the DC Initiative.

In August, 1994, HUD entered into a grant agreement with the District and the Community Partnership for the Prevention of Homelessness to implement the DC Initiative. The Community Partnership is a non-profit corporation selected by the District and agreed to by HUD. Among the specific duties of the Community Partnership was planning, coordinating, monitoring and contracting for the provision of shelter and support services for homeless individuals and families in the District. The Partnership agreed to monitor those providers to ensure compliance with the terms of their contracts.

As part of that initiative, in November 1994, the Community Partnership awarded the Community for Creative Non-Violence a 3-year, \$1,239,705 grant to establish and operate a computerized case management system. Under the terms of the grant, CCNV agreed to use grant funds only for activities described in the grant agreement and to maintain separate books for the grant in an up-to-date and good condition.

Scope of Review

The objective of our review was to determine whether the grant funds CCNV received from the Community Partnership to develop and implement a computerized case management program were spent for that purpose. In making this determination, we created a listing of receipts and disbursements for the period November 21, 1994, the date when the case management checking account was established, to May 15, 1996, the date the last funds were provided to CCNV by the Community Partnership. This listing was based on bank statements, canceled checks, duplicate deposit slips, duplicate certified check receipts, and other supporting documentation. The effort was necessary because the check register listings provided by CCNV did not contain transactions such as business/direct access debits and other automated withdrawals listed in the bank statements. We also used Community Partnership records to determine the amount of grant funds provided to CCNV. In addition to our review of financial transactions, we interviewed HUD, Community Partnership, and CCNV representatives.

Our review was performed at CCNV and Community Partnership offices during the months of July and August 1996. The review was conducted in accordance with applicable government auditing standards and included such tests as we considered necessary.

Review Results

Finding - The Community for Creative Non-Violence Did Not Develop and Implement a Computerized Case Management System

As of May 15, 1996, the Community Partnership provided the Community for Creative Non-Violence (CCNV) with \$630,421 in HUD funds to establish and maintain a computerized case management system at the Federal City Shelter. However, CCNV had not automated the case management process and case management services were not provided as originally proposed. In

addition, CCNV, through the actions of its vice president/executive director, used grant funds for purposes other than those agreed to under the grant agreement. As a result, grant funds intended to help the homeless were used for ineligible activities. Therefore, we are disallowing \$406,871 as not being spent on grant related items and are recommending the termination of the grant agreement.

Performance

Case management is comprised of: assessment interviews, case plan development, services identification, monitoring, follow-up services, and files and records maintenance. The benefits of an automated case management system is improved record-keeping in order to free time for client contact; better tracking of client services provided while at the shelter and after they leave; and improved gathering of statistical information for reporting and evaluation. To achieve this end, CCNV was awarded grant funds for case management software development, computer and office equipment, salaries and benefits for case management staff and other case management related expenses, including a 10 percent administrative fee for overhead expenses.

While grant funds were expended, the goal of implementing an automated case management system was not achieved. Funds were expended for some case management related expenses such as staff salaries, some computer hardware, and software development, but the case management process was never automated as originally planned. We did not evaluate the effectiveness of the case management services that were being provided without the automated system. A separate report was prepared by a consultant hired by the Community Partnership assessing the value of the case management services being provided under the grant. We were provided a briefing of that study and have allowed the salary costs to remain an acceptable cost of the grant even though the case management function did not achieve the desired level of service as originally proposed.

Based on our review of receipts and disbursements for the automated case management program at CCNV, we determined the \$406,871 in disallowed costs as follows:

Money provided to CCNV ¹	\$ 630,421
Less: Case Management Expenses	(203,227)
Less: Overhead of 10%	<u>(20,323)</u>
Total Amount Disallowed	<u>\$ 406,871</u>

In reviewing the case management checking account, we had to isolate the HUD receipts and the case management expenses due to some commingling of funds. We reviewed the transactions in

¹ Only \$618,521 was traced to the checking account. An \$11,900 check issued May 15, 1996 could not be traced because the May 1996 bank statements were not provided.

the account for the period November 21, 1994 through April 30, 1996 and were able to determine the following:

Receipts:

HUD	\$618,521
Other ²	<u>271,124</u>
Total Receipts	<u>\$889,645</u>

Disbursements:

Case Management	\$203,227
Other Expenses ³	<u>674,485</u>
Total Disbursements	<u>\$877,712</u>

During the period we reviewed, on numerous occasions, the case management staff have had their paychecks returned because of insufficient funds even though the Community Partnership provided the necessary funds to cover these expenses. The CCNV also has not paid the income tax liabilities for either the District of Columbia or the Federal withholding taxes. We were advised that some taxes were paid in 1994, however we were not provided any documentation supporting this statement and did not note any payments of these items during our review.

The breakdown occurred because CCNV did not have an adequate system in place to control the receipt and disbursement of funds. Specifically, there was no separation of duties. CCNV's Vice President/Executive Director controlled all financial aspects of the case management program. He prepared the grant drawdown requests, received and deposited the grant funds, approved all purchases with grant funds, prepared and signed the checks, accessed grant funds through both manual and automated debit transactions, and established a credit card account using the grant monies and he was the cardholder. Because of the lack of controls normally provided by separating duties, the Vice President/Executive Director was able to totally control the case management program with little or no oversight or input by the CCNV Board of Directors.

Another contributing factor was the lack of a timely audit of CCNV that could have identified and prevented the further misapplication of the grant funds after the first year of the grant implementation. An OMB Circular A-133 audit is required for grantees receiving in excess of \$100,000 and is to be submitted within 60 days of the year end. The report was not provided to the Community Partnership until May, 1996 instead of November 1995, a delay of six months.

² Other income includes private donations and a \$75,000 grant from the DC Government(restricted funds) for the Hypothermia Program.

³The Other expenses are classified In Appendix A.

The report, prepared by CCNV's CPA firm for the 15 months ended September 30, 1996 questioned over \$200,000 of the Year 1 funds of \$319,456. The questioned funds were used for operations, fundraising, or were disbursed to the Executive Director and could not be supported. Had the report been timely the Community Partnership could have prevented CCNV from receiving additional funds for that six month period. Even though the Community Partnership sent numerous letters threatening the cutoff of funds if the financial reviews and audit were not received, the Community Partnership still continued to send funds even though the CCNV did not have the audit conducted.

Since the time of our initial inquiry CCNV has not had access to the remaining grant funds. The last grant funds provided to CCNV were in May 1996. The Community Partnership has been maintaining the case management program through the use of an outside administrator.

Recommendations

We recommend that your office:

- reduce the funds to the Community Partnership by an amount equal to our disallowed costs,
- instruct the Community Partnership to seek reimbursement for the expenses from the CCNV from non-federal funds and cancel the remaining grant.
- suspend CCNV and its Vice President/Executive Director from receiving additional HUD funding and initiate debarment actions.
- instruct the Community Partnership, for future grantees, to conduct some type of evaluation prior to the release of Funds to ensure that the subgrantees have adequate accounting controls, and data collection systems in place to account for and control the receipt of funds.
- instruct the Community Partnership to perform additional onsite monitoring of the grantees including reviews of the grant financial records.
- meet with the Community Partnership and make a determination as to whether the case management services at CCNV should be continued or terminated. If terminated, the Community Partnership should seek to obtain the physical items purchased by the grant funds. These items should include the computers that were charged to the grant and the case management software that was developed.

These recommendations are consistent with those actions that you stated would be taken in

response to our draft report and are being restated for audit follow-up purposes.

* * * *

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this audit.

We appreciate your cooperation during this review. If you have any questions, please contact Donald W. Cairns, Assistant District Inspector General for Audit at (202) 708-0351.

Other Expenses Category in the Case Management Account

General Shelter Expenses	\$177,984
Unidentified Miscellaneous Expenses	98,699
Fundraising and/or 25th Anniversary Celebration	120,145
Payments made to Vice President/Executive Director	40,865
Rental Payments for Vice President/Executive Director	3,876
Unidentified Withdrawal Items on Bank Statements	56,400
Medical Insurance for Vice President/Executive Director	2,004
Credit Card -Vice President/Executive Director (Signator)	30,705
Unidentified Checks Made out to Cash	92,157
Unidentified Automated Withdrawals on Bank Statements	51,650
Total Other Expenses:	\$674,485

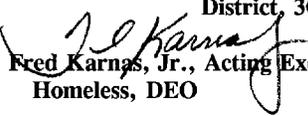


U.S. Department of Housing and Urban Development
Washington, D.C. 20410-7000

OFFICE OF ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

NOV 20 1996

MEMORANDUM FOR: David J. Niemiec, District Inspector General, Capital
District, 3GGA

FROM:  Fred Karnas, Jr., Acting Executive Director of the Interagency Council on the
Homeless, DEO

SUBJECT: Comments on Draft Memorandum Report - Community for Creative Non-
Violence

The Office of Community Planning and Development (CPD) has reviewed the draft report on the Community for Creative Non-Violence (CCNV) dated October 28, 1996.

In early September, CPD was in the process of awarding funds to the Community Partnership for the Prevention of Homelessness (CPPH) for Year II of the three year D.C. Initiative. During this time, CPD officials were briefed on the alleged misuse of some of the HUD Year I Initiative funds, previously awarded to the CPPH, by its sub-recipient CCNV. While it was clear that the misuse of funds was by CCNV, the Office of the Inspector General (OIG) and CPD discussed how CPPH could strengthen its financial controls. The Office of CPD further shared with OIG that the Year II funding decision was imminent. The OIG indicated that it had found nothing to preclude HUD awarding funds to CPPH, as long as these funds were not to go to CCNV.

The Office of CPD was very concerned by the OIG preliminary findings. On September 18, when HUD moved forward with awarding the Year II grant, CPD sent the attached letter to the Community Partnership requiring certain actions as a result of CCNV's alleged activities. As you will note, the letter withheld \$500,000 of HUD Year II D.C. Initiative funding, and established a series of financial controls, including on-site monitoring, to be implemented by the Partnership to minimize the chance of similar problems in the future.

Based on discussions with your office and consistent with the recommendations in your report, we are taking the following additional actions:

1. Instructing the Community Partnership to seek reimbursement for the disallowed expenses from CCNV and cancel the remainder of the grant.
2. Suspending CCNV and ~~Keith (Name)~~, CCNV's Vice President/Executive Director from receiving additional HUD funding.
3. Instructing the Community Partnership to conduct a review, prior to the release of funds

to any new organization to ensure that sub-grantees have adequate accounting controls and data systems in place to account for and control the receipt of funds.

4. Meeting with the Community Partnership to ascertain whether to continue the case management program at the CCNV site. Should the decision be to terminate the program, HUD will require that the Community Partnership seek the return of physical items paid for through the grant (e.g., the computers).

In addition, CPD will reconcile the difference between the \$500,000 withheld from CPPH and the \$406,871 determined by your office to have been used for unallowable expenditures by CCNV.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

Appendix B
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OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

SEP 18 1996

Sue Marshall
Executive Director
Community Partnership for the
Prevention of Homelessness
801 Pennsylvania Avenue, SE #450
Washington, D.C. 20003

Dear Ms. Marshall:

I am writing regarding two issues related to the D.C. Initiative. The first issue is the Year II funding for the Initiative.

We recognize that the District government funding cuts impacted your first year accomplishments. However, the creative manner in which you were able to adjust to the city's reduction in funds is a testament to your commitment to addressing homelessness in the District of Columbia. Even though the funding cutbacks necessitated changes in the number of benchmarks you originally agreed to meet, we believe you were able to provide the foundation for a "continuum of care." This is to advise you that we have approved the activities and benchmarks you have achieved during the first year of the D.C. Initiative.

Based on your satisfactory completion of Year I, we have approved the release of your Year II funding from the Department of Housing and Urban Development (HUD). According to the original grant agreement between HUD, the Partnership, and the District of Columbia, a total of 1,025 benchmark units were established for Year II. They are outlined below:

- 120 beds for people with mental health problems
- 200 beds for individual substance abusers
- 50 units of job training
- 25 beds for people with HIV/AIDS
- 80 SRO units

Disbursement Controls:

- (a) All disbursement checks should have corresponding invoices or other supporting documentation. Purchases that do not have an invoice should have been approved through the use of a purchase order. Each invoice should also have a corresponding approved purchase order. Items of a continuing nature, such as utility bills would be the exceptions. Petty cash disbursements should have a corresponding record of the transaction and receipts. Payroll checks should be supported by payroll records or time sheets.
- (b) All checks should contain proper signatures, date of payment, name of payee, and amount of payment, and they should be issued in consecutive order
- (c) Two authorized signatures must be required for all checks over \$300.
- (d) All checks should bear the name of the entity and be pre-numbered. Temporary checks should not be used.
- (e) Petty cash disbursements should be limited to business related expenses and under a certain amount (\$25). If an expense is over the established threshold, an expense report should be filed for reimbursement by check. The petty cash fund should be limited to \$300 and reimbursed by check after it reaches a low of \$100, but only after a report is submitted reconciling the petty cash expenditures.

Receipts Controls:

- (a) All checks received should be restrictively endorsed upon receipt. "For Deposit Only, entity's name, and account number."
- (b) In most cases, the checks should be deposited on the same day they are received.
- (c) A copy of the check with a copy of the deposit slip attached should be kept in a receipts file.

(d) After the deposit is made, the bank endorsed deposit slip should be given to the bookkeeper and filed with the bank statement when received.

Fiscal Oversight

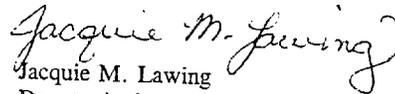
(a) A check register should be maintained showing the receipts and disbursements.

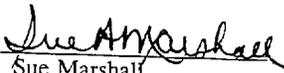
(b) Bank reconciliations should be prepared on a monthly basis.

We recognize that a number of these requirements are already in place in many of your sub-grantees. However, we believe that by requiring the aforementioned actions across the board, the fiscal accountability of the D.C. Initiative will be significantly strengthened.

Again, we appreciate your hard work in Year I and the progress you have made in addressing the needs of the District's homeless population. We look forward to our continued partnership with both you and the District government in the coming year. Your concurrence in agreement with the Year II benchmarks is appreciated.

Very sincerely yours,


Jacquie M. Lawing
Deputy Assistant Secretary
for Economic Development

Concurrence 
Sue Marshall
Executive Director
Community Partnership
for the Prevention of Homelessness

Distribution

Deputy Assistant Secretary for Economic Development, DE (Room 7204)
Director, Interagency Council on the Homeless, DEO (Room 7204)
Audit Liaison Officer, Office of Community Planning and Development, DG (Room 7214)
Assistant to the Deputy Secretary for Field Management, SDF, (Room 7106)
Chief Financial Officer, F, (Room 10164) (2)
Deputy Chief Financial Officer for Operations, FF, (Room 10166) (2)